

ANALYSIS OF THE SOCIAL SECURITY SYSTEM

HEARINGS BEFORE A SUBCOMMITTEE OF THE COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES EIGHTY-THIRD CONGRESS FIRST SESSION

Appendix II MISCELLANEOUS DOCUMENTS

Printed for the use of the Committee on Ways and Means



UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1954

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ANALYSIS OF THE SOCIAL SECURITY SYSTEM

I. MEMORANDUM ON RIGHTS OF INDIVIDUALS UNDER THE OLD AGE ASSISTANCE PROGRAMS

Prepared by the staff of the Subcommittee on Social Security (1953)

The old-age assistance program is contained in title I of the Social Security Act, as amended, and provides monthly cash payments for needy persons 65 years or over. Payments are made only on the basis of need and may reach a maximum of \$55 per month under the Federal act. At the present time, the Federal Government provides \$20 of the first \$25 of the average grant and half of each additional dollar.

The program is administered by the individual States which organize their own administration. The Federal limitation concerning the State administration is that their plans must conform to the provisions required by the Federal Government in order to qualify for Federal funds.

Questions have arisen concerning the nature of the rights of individuals under the old-age assistance program. A person who meets the requirements of the plan is entitled to receive monthly benefit payments. If his application is denied by the administrator of the program he may seek a remedy in the State or Federal courts.

It is to be expected that differences in administration will occur due to the individuality of the plans and being operated by the different State governments. It is significant that with the differences arising because of the different State administrations, the courts have been unanimous in interpreting the nature of the benefits under the old-age assistance programs as gratuities. Under these court findings the benefits may be modified or withdrawn at the will of the Government. The recipient has no recourse in case of such action by the Government since he has no right of any kind (other than those provided by the statute) in the gratuity. However, once a benefit has been paid to and received by the beneficiary he has a vested property right in that payment.

The following cases substantiate the statement that the various courts have found the old-age assistance benefits to be gratuities.

"The Social Welfare Act provides that old-age assistance shall be given to any person who has attained the age of 65 years or upwards and fulfills the other statutory requirements. Emma Davis applied for and received assistance from October 1, 1939, through April 1949. It was a gratuity, and the payments became her property when and as she received them." (*In re Davis' Estate*, 48 N. W. 2d 151, Michigan, 1951) :

"Aid to the aged is purely statutory and disbursements under old-age pension law are 'gratuities'" (*Scobey v. Fair*, 45 N. E. 2d, 139, 141, Ohio, 1942).

"The State has no claim which it can assert during the life of the recipient. The money paid by the State (under OAA) was a gratuity" (*Potts v. Adams* 90 N. E. 2d 703, Ohio, 1949).

"Old-age assistance benefits are not payments to which a citizen is entitled as a right. They are themselves gratuities given by the State to the needy, and as long as the principle of classification is a reasonable one, the legislature may deny them to one class while granting them to another" (*Howlett v. Social Security Commission*, 149 S. W. 2d 806, Missouri, 1941).

"Old-age assistance benefits are 'gratuities' given by State to the needy" (*Campbell v. State Social Security Commission*, Mo. 191 S. W. 2d, 1015, 1018, Missouri, 1945).

On December 6, 1940, the Minnesota Supreme Court in the case of John Dimke, et al., versus Walter W. Finke, Director of Social Welfare, et al., 209 Minnesota Reports 29, 295 N. W. 75, included in their decision the following paragraph :

"Appellants contend that the amendment is unconstitutional because it deprives them of their property without 'due process of law' in violation of Min-

nesota Constitution, article 1, section 7. They argue that the money paid a recipient of old-age benefits by the State is not paid to discharge a contractual obligation but is in the nature of a 'gratuity' which the legislature may discontinue at will and that the State therefore lacks the power to require either its repayment or security therefor. What appellants appear entirely to overlook is the fact that *they have no vested rights in old age benefits or in any other form of relief. The State may, as it has, grant such benefits, but it is not required to do so. In granting them it may impose such conditions as it deems proper and just. If a person accepts a grant, he must accept it subject to the conditions.*

"(3, 4) Another of appellant's arguments is entirely fallacious. In his brief he says that to a man who has 'lived a good life for 65 years * * * this old-age assistance statute should be viewed in the light of a reward.' There is nothing in the record to show that appellant has lived a 'good life.' In any case his old-age pension is not given as a reward, it is given to satisfy a human need regardless of the kind of a life the man has lived, and, in accepting charity, the appellant has consented to the provisions of the law under which charity is bestowed. There is nothing in the record to show that the welfare law has, in this case, been improperly administered" (*Wilkie v. O'Connor*, 25 N. Y. S. 2d, 619, 620, New York 1941).

"While old-age assistance benefits are not a matter of right, but are gratuities and dependent on statute, persons eligible under a statute have enforceable rights to assistance thereunder; but they do not acquire a vested right to continuance of benefits which are subject to a change in, or repeal of, the statute" (*81 Corpus Juris Secundum*, p. 41).

"(6, 7) * * * Recipients or applicants have no inherent or vested right in the public assistance they are receiving or desire to receive. The matter of extending, expanding, curtailing, or withdrawing public assistance is one of public policy only. Pension and relief programs not involving contributions to specific funds by actual or prospective beneficiaries provide only a voluntary bounty which may be discontinued at any time" (*Sen. Citizens League v. Dept. of Soc. Sec.*, 228 p., 2d 478, 483, Washington, 1951).

"There is no vested right to receive old-age aid" (*Kelly v. State Board of Social Welfare*, 186 p., 2d 432, California, 1947).

II. PUBLIC ASSISTANCE AS A SOCIAL OBLIGATION,¹ A. DELAFIELD SMITH,² HARVARD LAW REVIEW, VOLUME 63, PAGES 266-288 (1949)

A comprehensive answer would require a far-reaching analysis of the law's response to a changing popular conception of the relationship between the individual and the society in which he lives. This paper may be able to point out some of the more important aspects of the problem.

I. LEGAL BACKGROUND

Historically and traditionally, of course, there was no legal right to public assistance. As Blackstone pointed out, at common law there was "no compulsory method chalked out for th[e] purpose" of sustaining "the poor."³ In the past, the dominant social philosophy has denied the ethic upon which the right is predicated. The former is essentially negative in its implication, a right not to be invaded; the latter is essentially positive, a right that requires legal and fiscal implementation. Only during the last century, when the needs of most people have come to be supplied through the distributive agencies of organized society, and not through the individual's own exploitation of nature, could the latter right be conceived and effectuated.

¹ The opinions expressed are the author's and do not necessarily reflect the official views of the Federal Security Agency.

² Assistant General Counsel, Federal Security Agency. A. B., Princeton, 1913; LL.B., Harvard, 1916.

³ 1 Bl. Comm. *359. A survey of history extending through the famous statutes of Elizabeth [principally 14 Eliz., c. 5 (1572) and 39 Eliz., c. 3 (1597)] to the adoption of the Social Security Act leads to the conclusion that our society has been very loath to set up anything that might be described as a right, except against relatives of the individual within certain degrees of kinship. All obligations to support, with the exception of certain responsibilities within the family, are purely statutory.

After 1900, state legislatures started to single out certain categories of individuals and to give them some real assurance of a basic income in place of the traditional indigency relief.⁴ Thus began the statutory inroads upon a traditional philosophy and the era of modern social legislation. In 1935 the Social Security Act was adopted. It devotes three of its ten titles to public assistance measures.⁵ Title I of the Act authorizes federal grants-in-aid to the states as a means of helping the states establish by legislation some minimum standard of life for persons over 65 years of age who do not live in institutions. Title IV creates a defined category of dependent children whose eligibility apart from a lack of family resources involves some family breakdown, *i. e.*, children who are deprived of an element of their support or care through the death, absence, or incapacity of one or both of their parents but who are nevertheless living with a parent or other described relative. Title X establishes a third category which consists of blind individuals, a group thus specifically selected from the whole class of handicapped people. The general condition of eligibility in each case is need, that is, the absence of resources essential to a minimum standard established by the state. The assistance benefits paid to individuals find their sole authorization in the state statutes, which, with the implementing regulations and procedures of the state agency, form the framework of the "state plans." The federal grants merely reimburse the states in prescribed ratios for certain portions of their expenditures.

At the outset, public assistance is to be distinguished: (1) from economic security provisions, such as are now contained in the old-age and survivors insurance system,⁶ which are related to the individual's employment and hence to earning capacity; (2) from an unemployment compensation system⁷ whose object is to insure existing earning capacity against a defined hazard of unemployment; and (3) from public service programs. Assistance is distinguished from public service programs in that the former is defined by the Social Security Act as "money payments,"⁸ while the latter involves nonmonetary benefits. Public assistance is usually termed a "cash" program. Possessed of money provided by the "cash" assistance program, the individual can buy what he needs to the extent that it is available.

On the other hand, public service programs, such as those concerned with education, child guardianship, the rehabilitation of handicapped people, possibly medical care itself, involve so much of public concern with the standards of the service and the provision of facilities as to remove them from the province of a cash right. And while there may be enforceable rights to various types of public welfare services, this paper will be confined to the monetary claim.

A major purpose of the Social Security Act, and hence of state public assistance plans set up under that Act, was to give the individual enforceable legal rights of participation. All three of the federal titles require the state, as one of the conditions of the federal grants, to give the applicant the opportunity of a fair hearing before the state administrative agency.⁹ This generally brought applicants under the constitutional guaranty of due process. The draftsmen of these titles, however, apparently did not think it necessary to require state legislatures to declare the existence of a legal right and included no language making the application of the equal protection clause of the Federal Constitution a matter of administrative concern. This omission may have been due to a belief in the applicability of these basic principles of constitutional law to all statutory rights thus created, but there was a failure to recognize the fact that social measures adopted for the economic protection of so-called underprivileged persons had developed in a tradition utterly nonlegal and under the burden of deeply entrenched attitudes that are traceable through our entire history.

A major obstacle to legal recognition of the individual's right to life in economic terms is the firm conviction of a great many people, even now, that the claim to subsistence is a claim to what can only be a gratuity. In short, the law is here faced with the traditional view that this phase of our social and economic life is inherently nonjusticiable and that aid to the needy grows out of a humanitarian and philanthropic activity which, even when assumed by public appropria-

⁴ Blind individuals in need were separately classified as early as 1903. Ill. Laws 1903, p. 138. In Massachusetts a commission to study old-age pensions or assistance was appointed in 1907. The first enduring mothers' aid or aid to dependent children statute was Ill. Laws 1913, p. 127.

⁵ Titles I, IV, and X, 49 Stat. 620, 627, 645 (1935), as amended, 42 U. S. C. §§ 301 *et seq.*, 601 *et seq.*, 1201 *et seq.* (1946).

⁶ Social Security Act, Title II, 49 Stat. 622 (1935), as amended, 42 U. S. C. § 401 *et seq.* (1946).

⁷ *Id.*, Title III, 49 Stat. 626 (1935), as amended, 42 U. S. C. § 501 *et seq.* (1946).

⁸ 49 Stat. 622, 629, 647 (1935), as amended, 42 U. S. C. §§ 306, 606 (b), 1206 (1946).

⁹ 49 Stat. 620, 627, 645 (1935), 42 U. S. C. §§ 302 (a) (4), 602 (a) (4), 1202 (a) (4) (1946).

tions and facilities, can never escape its origin as a charitable benefaction. Most, if not all, of the State constitutions prohibit the payment of gratuities to individuals from the public treasury.¹⁰ Since public assistance is usually a draft, pursuant to appropriation, upon the general tax funds for making payments to individuals,¹¹ in a number of decisions, courts influenced by the gratuity conception held public assistance statutes unconstitutional.¹² But even then the constitution was not in all cases amended. The law might be rephrased in more restrictive terms,¹³ and if then held constitutional, a gradually broadened conception of the assistance function could be established. Or, reliance might be placed on the police power in the manner of the New Hampshire court which, despite its conception of public assistance as a gratuity, would uphold an assistance statute on grounds used traditionally to support pauper relief.¹⁴ The relation of the police power to what is essentially nothing more than the collection of taxes and distribution of funds arises from the fact that public relief grew up as a phase of the laws dealing with public charges, such as antivagrancy, settlement, and relatives-support laws. The origins of welfare's inclusion within the police power are traceable to the purpose of early poor laws to protect the interests of the rest of society.¹⁵

On the whole, when the implications of treating public assistance as a police power function are considered, one may prefer a decision of the Pennsylvania court holding that public assistance violated the state constitution.¹⁶ Nevertheless, this decision created difficulties when it came to upholding a more extensive assistance program enacted during the depression.¹⁷ Some courts appear to have avoided the gratuity conception by deciding that the taxing power was being used for a public purpose, and by pointing out that cash relief had been a governmental function for a century or more.¹⁸ But these courts may regard public assistance as a gratuity for other purposes, such as determining the scope of judicial review or the need to assure due process of law.¹⁹

However, judicial determination or review of individual public assistance claims by some form of procedure is now fairly widely available on the basis of statutory provisions. For example, a statute originally drafted by the author was adopted in Missouri²⁰ where cases too numerous for citation have since been reviewed.²¹ The more serious problem in a number of states has been to mark out the spheres of the administrative agency and the judiciary.²²

II. THEORETICAL SCOPE OF THE PUBLIC ASSISTANCE FUNCTION

Although it is not within the scope of this article to completely reconstruct in either economic or philosophic terms the principle upon which the public assist-

¹⁰ E. g., Ga. Const., Art. VII, § 2-5402.1: "The General Assembly shall not by vote, resolution, or order, grant any donation or gratuity in favor of any person, corporation, or association."

¹¹ Some statutes provide that the recipient of the money payments, shall not be deemed a pauper by reason thereof. E. g., N. J. Stat. Ann., § 44:7-4 (1940).

¹² E. g., *Busser v. Snyder*, 282 Pa. 440, 128 Atl. 80 (1925).

¹³ Cf., e. g., *State ex rel. Walton v. Edmondson*, 89 Ohio St. 351, 106 N. E. 41 (1914).

¹⁴ Opinion of the Justices, 85 N. H. 562, 154 Atl. 217 (1931). The court was impressed by the statute's inclusion of provisions for the recovery of benefit payments and other "safeguards." This case must now be considered an "early" one in this fast-changing field.

¹⁵ See DE SCHWEINITZ, *ENGLAND'S ROAD TO SOCIAL SECURITY* c. 3 (1943); S. and B. Webb, *English Local Government; English Poor Law History; Part 1. The Old Poor Law* 405 (1927).

¹⁶ *Busser v. Snyder*, 282 Pa. 440, 128 Atl. 80 (1925).

¹⁷ See *Commonwealth ex rel. Schnader v. Liveright*, 308 Pa. 98, 161 Atl. 697, 718 (1932) (dissenting opinion).

¹⁸ Cf. *State ex rel. Walton v. Edmondson*, 89 Ohio St. 351, 106 N. E. 41 (1914).

¹⁹ Mo. Rev. Stat. Ann. § 9411 (1943).

²⁰ E. g., *State ex rel. Westbrook v. Oklahoma Pub. Welfare Comm'n.* 196 Okla. 586, 167 P. 2d 71 (1946) (no judicial review permissible under the statute). The general doctrine is fully set forth in *Frisbie v. United States*, 157 U. S. 160 (1895), but treatment of the effect of the gratuity concept on the scope of judicial review is generally beyond the range of this article.

²¹ The statutory procedure is fully analyzed in *Rosebraugh v. Social Security Comm'n.*, 196 S. W. 2d 27 (Mo. 1946).

²² See *Borreson v. Department of Pub. Welfare*, 368 Ill. 425, 14 N. E. 2d 485 (1938), where a statutory provision for trial *de novo* upon old-age assistance claims was held unconstitutional as an invalid delegation of executive power to the judiciary. This significant decision was reached only after reargument of the case. The court's original decision and the views of the court below ignored the agency's procedure and decision—practically ignored the agency. Failure of the courts to direct their attention to the agency's treatment of the case permits the agency to function without judicial surveillance. This, rather than the inability of the individual to invoke judicial action, was the initial problem.

Public assistance, in children's cases especially, was originally a judicial function in New Jersey and in certain other states, and a judicial authorization was frequently the only means of legalizing the payment. Confusion between the administrative and judicial function has therefore frequently manifested itself. Cf. Opinion of the Justices, 85 N. H. 562, 154 Atl. 217 (1931).

ance right is predicated, certain fundamental facts must always be kept in mind. We have in this country so-called full employment with sixty-odd million workers and at least eighty-five million other individuals. The relative-dependency system, apart from the breakdown of its enforcement processes, is plainly ineffective to spread purchasing power. As respects children, entirely aside from the problem created by the inadequacy of parental earnings, there are, for example, some million and a half children who do not derive their support from parents except in some cases to a minor degree. The great causes of need are incapacity and disability. Apart from children and the aged, individuals seriously incapacitated physically or mentally number two million and up, depending upon definition. These considerations raise significant problems with which the security system must deal. Obviously you cannot ultimately relate economic security benefits both to earnings (which reflect capacity) and to need (which reflects incapacity). The necessity of a need factor in our distributive processes can easily be demonstrated, pragmatically and theoretically.

In terms more philosophical, the fundamental developments which have resulted in interposing the whole social and economic structure between the individual and his ultimate resources in nature must be recognized as having deprived the individual, or as having at best made him a third party obligee, to nature's underlying commitment. Nature has maintained individual life from a time when the individual had substantially no capacity of his own. We cannot achieve the similar security of the individual at the hands of society without suitable substitution for that commitment in terms of human law. A guaranty of the opportunity to earn a living, even if it is given, will meet about half the problem. Less than half the race has normally any substantial earning capacity at a particular moment of time.

Historically, the objective of private or public relief was merely to keep the individual alive from day to day, and in modern times, at a level "compatible with decency and health," as it is phrased in many statutes. However, this is not the security but salvage. It is not good either for the individual or for society that its members should obtain subsistence by begging for it; and it is of the very essence of democracy that the principles on which we ultimately rely shall be embodied in our laws.²³

While it seems unlikely, especially in the light of the Social Security Act, that a straightforward assurance of income during periods when the individual lacks earning capacity would again be held unconstitutional by state courts, frank recognition that such a guaranty merely implements the individual's ethical rights is extended only gradually. However, there has been some express legislative declaration of the principles underlying assistance laws,²⁴ and there is some recognition by the courts themselves, unaided by legislative declarations, that the underwriting of the individual's economic life is not a gratuitous undertaking even in the legal sense. Thus, the Kentucky court, in upholding a statute providing for aid to the blind, said:

"Section 3 of the Constitution [the anti-gratuity provision] applies to cases where no duty rests upon the state to reward the recipient, but not to cases where payments are made in discharge of an inherent duty. The aid provided for in the act before us is not a mere gift or bounty, but is a payment by the state in discharge of a duty to a recipient who is entitled to it as of right, having established his eligibility under the act."²⁵

The court pointed out that the duty under the common law was purely moral and not legal.²⁶ And recently, the California court, in ordering a county to make

²³ Great significance should be attached to the following statement incorporated in Article 25 of the Universal Declaration of Human Rights adopted by the General Assembly of the United Nations on December 10, 1948: "(1) Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing, and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age, or other lack of livelihood in circumstances beyond his control."

²⁴ Types of legislative declaration, weighted in favor of a particular group, will be found, e. g., in western old-age assistance initiatives. See Wash. Rev. Stat. Ann., § 9998-34 et seq. (Supp. 1941).

²⁵ *Bowman v. Frost*, 289 Ky. 826, 830, 158 S. W. 2d 945, 948 (1942).

²⁶ In certain kinds of cases, the constitutionality and other legal effects of legislative appropriations turn on the presence or lack of a supporting moral obligation. For example, *State ex rel. Adkins v. Sims*, 46 S. E. 2d 81 (W. Va. 1947) (claimants denied funds appropriated to remunerate them for damages incurred in highway accident because no state moral obligation). But the Supreme Court in *United States v. Cook*, 257 U. S. 523 (1922), held that an architect was entitled to recover his five percent fee on an additional amount allowed by Congress to the contractor because of an earthquake, saying: "There was the moral consideration which properly induced the recognition of an honorable obligation and turned an unenforceable equity into a binding and effective provision." Id. at 527.

benefit payments retroactively from the day the beneficiary "first became entitled thereto" said that the obligation became, by virtue of the statute, a debt due from the county.²⁷

As yet no court seems to have indicated directly that assurance of income to meet need may properly be considered an essential component for our "wage economy," and that the payments, therefore, are not gratuities but reflect rather an appropriate use of the taxing power to introduce for the first time the factor of need as an element of control in the whole process of economic distribution.²⁸ But it is obvious at least that while the public assistance claim conceived as a legal right belongs to the individual, the obligation to satisfy that right is a responsibility of society and not of the "State" as such. The instrumentalities of government are but an arm of society for this purpose. The reverse conceptions leads to patent absurdities, such as that which regards the payment of benefits as an expense of government.

The influence of the gratuity conception can be felt in much that has been written about the alleged distinction between public assistance and social insurance. Compare, for example, payments of public assistance to individuals over 65 years of age through state welfare departments with the federally operated old-age and survivors insurance system. Under this system, by technically unrelated enactments,²⁹ taxes are levied upon employer and employee, and cash benefits basically predicated upon the employment relationship of the primary insured individual are paid under the conditions and in accordance with a formula precisely stated in the Society Security Act. There is no substantial basis for differentiating the two systems in the fact that federal old-age insurance coverage is not comprehensive and that the old-age insurance tax is conceived as earmarked for the payment of benefits. Fundamentally, all social security is dependent on the taxing power as may be seen from the Supreme Court's opinions sustaining the Act.³⁰ Public assistance relies on general taxation, preferably on taxes levied in accordance with ability to pay, and on benefit formulas based on economic need. It is true that "economic need" is not made a condition of eligibility to the benefit payments themselves in the federal old-age insurance program, as it is in the state-operated programs, but one must engage in some mental gymnastics to show the difference in theory between paying because there is need and paying so there will not be need. The federal insurance benefit formula is of course heavily weighted to achieve its purpose of meeting the actual need of the beneficiary. It may be suggested that if public assistance, while retaining its reliance on general taxation as above stated, would borrow objectivity in its benefit formulas from insurance, we would have a more effective system.

One point needs further emphasis. There is a notion that in this one area of the law, no right can exist which is not an earned right, and hence that economic need cannot be made the basis of a constitutionally protected legal right through the magic of legislative declaration. He who would accept this fiction should recall that before "earned rights" had acquired any such prestige as they are now said to have, property rights held even more of the coin of prestige, and grants from the sovereign the most of all. Yet if a person does not have a right he must beg for a gratuity; if he has a right, by exercising it, he asserts his independence. The entire difference between being dependent on society and being independent of society is expressed in having or not having a legal right. The ultimate question, then, that public assistance poses is this: What are the essentials of a legal commitment on the part of society? What is necessary in order that the economic security of the individual shall be ultimately founded in law? It will not be security until it is so founded.

²⁷ *Board of Social Welfare v. Los Angeles County*, 27 Cal. 2d 81, 162 P. 2d 630 (1945).

²⁸ Need is a relative term and is therefore subject to legislative definition. In many statutes, particularly in the western part of the country, it has been defined as a given dollar amount less the reasonable income value of the individual's personal resources. The dollar amount may reasonably be varied, so as to place the emphasis on equality of purchasing power under varying conditions, and also so as to recognize factors such as handicaps and illness that fundamentally affect need. The so-called budgetary system of determining need, often framed on the basis of statutes which prescribe in abstract terms a standard "compatible with decency and health," is referred to later in this article in discussing the legal requirement of objectivity. See pp. 285-286, *infra*.

²⁹ Title II of the Social Security Act, 49 Stat. 622 (1935), as amended, 42 U. S. C. § 401 et seq. (1946), and the tax provisions of former Title VIII, now Int. Rev. Code, § 1400 et seq.

³⁰ *Helvering v. Davis*, 301 U. S. 619 (1937); *Steward Mach. Co. v. Davis*, 301 U. S. 548 (1937).

III. LEGAL IMPLEMENTATION OF THE INDIVIDUAL'S RIGHT TO ECONOMIC SECURITY

The Problems for the Lawyer.—The social workers, once they became aware of the fact that law was the most necessary and effective means of promoting the sense of security, turned to the lawyers and asked them to define a legal right. The lawyers soon realized that their real job was to define the conditions of an obligation to satisfy the right. Thus, the lawyers found themselves face-to-face with the fundamental tests of a legally constituted public assistance system: equal protection of the laws and objectivity of formula. These legal criteria, however, are widely disregarded in welfare legislation. Failure to grant the assurance of *equal protection* must be attributed to traditional practice and expediency and not to theory, for the constitutional mandate requires "that all persons subjected to such legislation shall be treated alike, under like circumstances and conditions, both in the privileges conferred and in the liabilities imposed."²¹

The Social Security Act left much for future consideration. Definitions of coverage have yielded somewhat to expediency and fall short of their objective of providing income during periods of physical or economic incapacitation. Or, it may be said that the statute leans heavily upon the principle that equal protection is a test applied to what you do, rather than to what you do not attempt to do. It seems most unfortunate that the drafters of the public assistance titles of the Social Security Act failed to speak in more precise legal terms. Quite understandably the establishment of a minimum subsistence standard was left to the states,²² but the attainment of the security objective should, it would seem, have led to more tangible requirements in the matter of legal standards. The public assistance titles failed to require expressly that the states by statute and implementing regulation establish rights of participation which are determinable on an objective basis and which demand in their administration application of ordinary legal tests of equal protection.

Traditional Use of Assistance to Control Behavior.—It will be remembered that the Social Security Act rested upon modern doctrines which asserted the individual's dignity and worth and his entitlement on moral grounds to the aid of society. The Act was supported by affirmations that the social environment and the economic pattern, rather than the faults of the individual, were mainly responsible for the insecurity sought to be remedied, and the Act therefore undertook to provide an economic corrective.

On the other hand, the welfare tradition reflected the precisely opposite hypothesis and approach. The broad discretion historically wielded by public welfare administrators manifested itself perhaps most significantly in the persistent but utterly ineffective attempt to modify human behavior through conditioned offers of financial aid. Folklore, popular prejudice, and now-generally-repudiated dogma as to methods of character and personality development had over a long period of time become embedded in the "eligibility" concept. Requirements such as "living in a suitable home" had become firmly lodged in welfare statutes and had esoteric meanings that transcended physical considerations and general understanding.

Thus, financial assistance from public funds was denied upon occasion to children whose mothers took in male boarders or exhibited a fondness for special items of luxury, to adults who indulged in alcohol, and to children whose wholly or partially incapacitated parent seemed loath to accept services designed to effect his physical rehabilitation. In the general relief system, it became customary to justify denial of aid with the familiar phrase, "client refuses to cooperate." Even after the advent of the classificatory assistance system, payments might be denied by state agencies to those who failed to manage their lives or their money in an approved manner, or the payments might be made to so-called "responsible persons," a type of administratively appointed guardian of the person with none but an implied monetary accountability. Thus, an administrator would devise a code of human behavior, infractions of which would not involve any crime, and then upon the basis of investigation without judicial safeguards, would pass judgment upon the individual, invoking his personal behavior code and individual findings in a discretionary determination of the individual's "eligibility."

²¹ *Truax v. Corrigan*, 257 U. S. 312, 333 (1921), quoting from *Hayes v. Missouri*, 120 U. S. 68 (1887).

²² The preambles state that the purpose of the titles is to enable "each State to furnish financial assistance, as far as practicable under the conditions in such State * * *." 49 Stat. 620, 627, 645 (1935), 42 U. S. C. §§ 301, 601, 1201 (1946).

It was as bill collectors, however, rather than as moral reformers, that welfare administrators achieved some success. If the mere withholding of assistance to those who did not pay their rent or their doctor proved an ineffective stimulus, the bill could be directly paid upon the creditor's appeal to the agency and that amount deducted from the benefit payment. However, this practice and the analogous use of scrip redeemable only in kind, with its complete denial of individual choice and bargaining power and its bad economics, had already received some popular condemnation actuated in part by the comparable use of company scrip for wages. The practice fell into disuse because of the Social Security Act provisions which defined assistance as "money payments."

The behavior issue, however, was even more deeply entrenched. Except where (as in most of the western states) entirely new and objectively framed statutes were enacted, statutory phraseology with its emphasis upon the worthiness of the individual, and its insistence upon "suitable homes" and payment to "responsible persons" naturally continued to condition administration.⁸³

In 1941 a Mr. Wilkie in New York saw fit to seek a judicial test of a suitability-of-home provision, an unprecedented proceeding.⁸⁴ Wilkie's home, described as a "nest of rags under a barn," was no doubt unsuitable in the physical sense, but the opinion rests on the premise that "in accepting charity, the appellant has consented to the provisions of the law in which charity is bestowed." Consider this sentence:

"After all he should not demand that the public, at his expense, allow him to experiment with a manner of living which is likely to endanger his health so that he will become a still greater expense to the public."⁸⁵

An exclamation point seems essential here. How many people, who depend for their livelihood upon their earnings, persistently live in a manner "to endanger their health" and thereby in due course heavily burden the public purse! Do we not draw near to the very sanctum of individual freedom which only the objectivity of law can preserve? Suppose, for example, a publicly financed medical-care program should be established with the condition that its beneficial services shall be extended only to those whose condition of ill health and need of medical service shall have come about without any fault on the part of the individual. Such a provision would be the logical culmination of many a noteworthy precedent.⁸⁶

Decisions which stress the benefactory nature of the statute or administrative discretion, appear to be the most significant deterrents to the realization of the security objective in legal terms. Social security legislation and public assistance must be distinguished from legislated benevolence, and application of the basic constitutional guaranties must follow as a matter of legislative intent. However, statutory provisions have been suggested that obviously impaired constitutional freedoms. In the minds of those who conceived them, they fitted into the general welfare pattern; yet legal precedent and the due process clause plainly condemned them.

The following excerpt from a proposed Illinois public assistance law deserves attention:

"No aid shall be granted for the support of such child unless it is first determined by the county department that the home in which such child resides offers adequate physical, social, moral, mental, and educational facilities and surroundings and in addition thereto fosters and protects his religious faith."

This cause meant that no assistance would be granted where the child lived in a home of a different faith. Its origin will be found in the common practice (often required by express statutory direction) of placing the child in a home of the same religious faith as that into which it was born. However, from the standpoint of constitutionality, the placement case seems clearly distinguishable from a proposal to remove a child from a home upon religious grounds, or what is much the same thing, a proposal upon similar grounds to exclude such an established relationship from a public program instituted to sustain the home. In the case of placement, the homes being otherwise equal, it may be urged that no existing cognizable interests are abridged as they obviously are in the latter

⁸³ Under strictly objective statutes the occasion for moral judgments will not generally arise.

⁸⁴ *Wilkie v. O'Connor*, 261 App. Div. 373, 25 N. Y. S. 2d 617 (4th Dept. 1941).

⁸⁵ *Id.* at 375, 25 N. Y. S. 2d at 619.

⁸⁶ *Cf.*, e. g., 43 Stat. 615, 620 (1924), as amended, 38 U. S. C. §§ 471, 483 (1946) (denies benefits for disabilities due to veteran's willful misconduct); 41 Stat. 616 (1920), as amended, 5 U. S. C. § 710 (1946) (denies retirement annuity in case of disability due to vicious habits, intemperance, or willful misconduct).

situation. It was rather disconcerting, however, to learn that statutory provisions, very much like the above-quoted Illinois proposal, had been enacted in some states.³⁷ Fortunately, under these circumstances, the objection taken upon constitutional grounds had been raised in a Missouri child removal case.³⁸ Similar disregard of a basic freedom appeared in a statutory provision originally adopted in Minnesota which denied assistance to children living with noncitizen relatives. Here an appeal to the state attorney general easily established the unconstitutionality of the provision.³⁹

Another series of questionable provisions is not so easily disposed of⁴⁰ and is vulnerable, if at all, under the equal-protection guaranty. Consider, for example, a provision denying assistance to an individual who has relatives able and legally liable for his support, but who nevertheless do not support him and cannot be made to do so. The tendency to use such a club increased somewhat as the relatives-support system became less and less enforceable. Children, by leaving the parental domicil, escaped support proceedings within the state. The attempt to reach them wherever they went, has thus far rather successfully challenged the ingenuity of those who still believe that blood relationship implies economic interdependency. Likewise, legislative devices such as that described above have not achieved their purpose.

This type of indirect enforcement is further illustrated by the administrative practice of denying assistance to individuals who persist in living in homes and institutions that do not observe the conditions of their operating license. As a practical matter, the recreant institutions must either comply with the licensing requirements or solicit new patronage. However, from both a legal and social standpoint, direct enforcement would seem preferable.

Other statutory provisions or administrative rulings deny benefits to those who, though within one of the defined assistance categories, are adjudged from the subjective viewpoint of an agency employee capable of performing useful labor. This practice is to be contrasted with the pains taken in the administration of unemployment compensation to establish earning power by objective methods, such as the requirement of registration for suitable employment. Subjective administration indicates that public assistance is attempting to play a role it is not geared to undertake.

Objectivity in Classification.—It does not seem to matter very much in principle whether the provisions criticized above are embodied in a statute or are administratively espoused so long as in the latter case they are regarded as authorized. The prerogatives of the legislature in the welfare field must be regarded as much broader than they would be if the rights involved did not depend for their existence upon legislative action.

From the administrative standpoint, the development of rules designed to effectuate equal protection in this area requires a greater precision in the statement of statutory objectives and the resulting recognition of a far more restricted discretion. Experience shows that it is difficult to avoid even flagrant race and creed discrimination until it has been made clear that the agency is under obligation to compare its rejection of one individual with the circumstances of another whom it accepts; to state frankly and accurately its ultimate reasons for the proposed differentiation between the two; and to accept responsibility for justifying its decision in the strict terms of the statutory objective. The test of classification lies in a fine comparison of individual cases.

The administrative problem is, however, closely related to the legislative treatment of the classification problem. The broad discretion wielded by the agency results from the traditional practice in welfare legislation of enacting general measures which create a large class of eligibles, and then appropriating funds which are insufficient to aid all those who come within the terms of the legislation. While failure to implement such a statute does not affect its validity, it may require postponement of its operation.⁴¹ However, it is obviously im-

³⁷ Md. Ann. Code Gen. Laws, art. 88a, § 40 (b) (1939). Cf. N. D. Rev. Code, § 50-0904 (1943).

³⁸ *State ex rel. Baker v. Bird*, 253 Mo. 569, 162 S. W. 119 (1913).

³⁹ Opinion of Attorney General, Minnesota, to State Director Finke, August 5, 1939, advising that the statutory provision was unconstitutional as a discriminatory classification. Citizenship is, of course, now almost entirely independent of blood derivation.

⁴⁰ The types of provisions referred to appear in various assistance laws. More are encountered in proposals submitted to the Federal Bureau of Public Assistance prior to enactment. See, e. g., Me. Rev. Stat., c. 22, § 261 (1944), as amended by Me. Laws 1947, p. 551. This bill, however, was substantially modified in the course of enactment, so as to meet in some measure objections of the kind indicated here.

⁴¹ *Bowman v. Frost*, 289 Ky. 826, 158 S. W. 2d 945 (1942).

proper in public assistance to establish priorities according to the order of application, since such priorities are likely to conflict with the need objective. Administrative practice gradually has been made to conform to this principle.⁴²

The question of residence does not seem generically to be a problem in classification, although sometimes so treated. Residence is of particular concern from the federal standpoint as it defines the obligation of the states *inter sese*. The Social Security Act limits the length of the period of prior residence which the state can require as a condition of eligibility.⁴³ State legislation tends to favor residents of long standing and reflects a fear, largely unrealized, of popular resort to a state which provides "liberal" benefits. An attempt was made in an Illinois case to establish the unconstitutionality of a residence provision,⁴⁴ but the court held that the requirement of three years was a reasonable condition. Presumably the same court would have held otherwise had the individual been seeking to matriculate in a state public school, since there is usually a constitutional mandate to establish public school systems for the benefit of state residents. Determination of the issue by a definition of reasonableness, here as elsewhere in this field, will inevitably reflect failure to recognize the force of the principles behind the law.

In addition to the limitation upon state action affecting residence, the Social Security Act contains only two other restrictions upon state classification. One merely prohibits a citizenship requirement—i. e., a requirement related to the origin or nature of citizenship—which excludes a citizen.⁴⁵ Thus a state may exclude aliens—may in fact exclude everybody—but may not select for exclusion naturalized citizens, or, it is submitted, reservation Indians. The other federal provision denies the right to classify, in terms of age, those over 65.⁴⁶ These are merely rules of procedure in classification, for the Federal Act does not require the state to provide any given scope of coverage. As a result curious anomalies have presented themselves. Proposals have been made, for example, by two or three states to classify blind individuals in two groups, one of which would include persons who had some private resources and the other, those who had none. The Social Security Act in its pursuit of the need concept requires the states to determine the amount of the assistance in proportions reasonably inverse to the amount of the individual's other resources. The purpose of the proposed dual classification was to sidestep this federal requirement—albeit with some financial sacrifice to the state—by paying those with some resources a flat pension, but paying the resourceless group various amounts, determined on an individual case basis and not exceeding the amount of the flat pension. Claim would then be made for federal matching of the payments to the more indigent group as not being in derogation of the federal requirement. The proposal reflects a group resistance on traditional grounds to the need condition. Considered apart from its motivation, the above grouping would appear directly opposed to what might be expected of a program established to meet need. Since both groups are, nominally at least, within the scope of the federal objective, the proposal seems improper in a plan under the Federal Act.⁴⁷

Having in mind the dual objective of striking at traditionally loose administrative practice and of providing the much-needed legislative cue for the courts in their interpretation of existing statutory provisions, an attempt is being made at the federal level to remedy the original failure to provide anything in the way of an equal protection clause. Ultimately, such a provision in its direct or implied expression of a legally protected interest would inevitably have a beneficial effect upon subsequent assistance and perhaps other welfare legislation. It has been suggested that the requirement be so drafted that the rule thus laid down would be binding upon the state legislatures, state agencies, and the courts, and not upon the federal agency. The Social Security Administration would

⁴² See, e. g., *Commonwealth ex rel. Meredith v. Frost*, 295 Ky. 137, 141, 171 S. W. 2d 905, 907 (1943) (citing with approval injunction against waiting lists).

⁴³ 49 Stat. 621, 627, 645 (1935), 42 U. S. C. §§ 302 (b) (2), 602 (b), 1202 (b) (1) (1946).

⁴⁴ *People ex rel. Heydenreich v. Lyons*, 374 Ill. 557, 30 N. E. 2d 46 (1940).

⁴⁵ 49 Stat. 621, 646 (1935), 42 U. S. C. §§ 302 (b) (3), 1202 (b) (2) (1946).

⁴⁶ 49 Stat. 620 (1935), 42 U. S. C. § 302 (b) (1) (1946).

⁴⁷ Some states maintain separate assistance or "pension" programs for blind individuals able or potentially able to "become self-supporting," apparently a reasonable basis for differentiated treatment. High administrative standards are necessary lest such programs become a device for ignoring the individual's other resources in the payment of assistance. The classification, while permissible, is not, however, within the scope of federal reimbursement under Title X of the Social Security Act.

then be limited in its purview to see that the principle was made applicable in the state and might be invoked in litigation.⁴⁸

In classification for public assistance purposes, the legislature has very wide discretion. The contours of the existing federal titles are all explainable upon the record. The categories blocked out in the 1935 Act unquestionably avoid attacks that otherwise would presumably have emanated from traditional attitudes and interests. One may legitimately express misgiving at a classification which provides federal assistance for only those needy children living with one or more statutorily listed relatives,⁴⁹ and which in traditional vein excludes payments even to those who live with a legally appointed non-relative guardian. Yet it must be agreed that carving out the blind from the ranks of handicapped and disabled individuals is rather obviously within the legislative prerogative.

Further analysis of the classification problem is predicated upon an appreciation of the relation of public assistance to other social programs. Public assistance is primarily based upon economic need, which usually means lack of both income and earning power. Other social programs are designed for those whose potential earning capacity can be developed and insured. An excellent example of where public assistance blends with these other social programs is provided by federal-state vocational rehabilitation,⁵⁰ a service program whose function is the redevelopment of the individual's personal capacities for employment. Continuance of assistance during the period of rehabilitation, however, is essential. While this is now provided by the rehabilitation agency, it nevertheless constitutes a phase of the assistance right, distinct from the service of rehabilitation.⁵¹

Under the existing federal scheme of classification, the proposed projection of federal public assistance into the intermediate age group will call for a legislative definition of the handicapped. While to an idealist it may seem unfortunate to have to divide employable and unemployable persons on what may be termed an authoritative basis, the legislative determination seems preferable to the authoritarianism inherent in decisions made by an assistance agency on a subjective basis.⁵² The circumstances under which an individual is normally excluded from the labor market *should be defined in objective terms based on mental and physical condition*; the definition should avoid predictions of the individual's ability to find employment and other nonobjective tests that may subject him to the risks of capricious action. Predicting is an insurance function, a thought which confirms the propriety of the insurance method in achieving the security of those who are in or *potentially in* the labor market, and whose earning power is the actual subject of protection.

Both practically and theoretically, however, the achievement of child security presents by far the most difficult problem. The Social Security Act made a real advance toward this goal when it gave the child himself the right to assistance. However, the Act left to the states the supervision of foster care of children, including individual placements, and *in loco parentis* relationships generally. More significantly, the requirement of death, absence, or incapacity of a parent (though the language does not require that it be established as the cause of the child's economic need) excludes the factor of parental unemployment and the still broader factor of the inadequacy of parental earnings. While the former may be regarded as an adjunct of an employment insurance program, the latter seems a true assistance function.

⁴⁸ H. R. 2892, 81st Cong., 1st Sess., § 1407 (a) (8) (1949): " * * * determination of eligibility for and amounts of assistance or welfare services under the plan shall be made on bases which, within the area served, will assure to every individual the equal protection of the laws * * * "

An alternative provision would require the states to grant the individual the right to appeal for the purpose of assuring due process and equal protection of the laws.

⁴⁹ " * * * father, mother, grandfather, grandmother, brother, sister, stepfather, stepmother, stepbrother, stepsister, uncle, or aunt * * * " 49 Stat. 629 (1935), as amended, 42 U. S. C. § 606 (a) (1946). The defined relatives are for obvious reasons held to include those of the half-blood, affines in the same degree, and adoptees.

⁵⁰ 41 Sta. 735 (1929), as amended, 29 U. S. C. § 31 et seq. (1946).

⁵¹ The rehabilitation program in the states concerns itself also with a number of partially self-supporting units including workshop groups. Erroneous conceptions of public assistance as an extensive means of supplementing inadequate earnings of adults account for suggestions that low earnings should be "exempted" as a type of incentive. This, however, conflicts with the need concept which logically operates as the underwriting of a defined standard. Stimulating the employment of handicapped or rehabilitated individuals as well as developing the individual's own capacities and initiative is an enterprise of social and economic consequence, but one requiring techniques and extensive facilities associated only with a rehabilitation program.

⁵² The issue of "suitability" of an employment opportunity in the unemployment compensation program presents a similar problem.

When one comes to consider state patterns the situation at present is too intricate to yield to any summary. While, apart from state plans under Title IV, independent programs such as "mothers' aid" still exist in some states,⁵³ children are generally provided for only as part of the traditional general relief undertaking and under the heavy burden of the moral patterns already described.⁵⁴ Moreover, children may still be "committed" to state wardship by juvenile and county courts merely because of their economic need.⁵⁵ Clearly, any substantial broadening of the federal undertaking would promote the cause of equal protection. In passing it may be noted that the extension of the federal aid provisions to children living with guardians might encourage the appointment of legal guardians, and lead, perhaps, to reform of the antiquated law and practice which has resulted in parentless children becoming wards of the state.

IV. SUGGESTIONS AND CONCLUSIONS

These considerations lead to the point of final emphasis, the contribution of law to the social objective of promoting the individual's sense of security.

Determination of a Standard of Need.—The welfare tradition has handed down to us the budgetary system for determining need. This method is predicated on the provisions of a standard or "content of living," the essential components of which are assigned monetary values. These permissible allowances are then reduced to precise dollar-and-cents amounts related to the particular individual or family economy. The equal protection principle is relevant here as elsewhere and classification for the purposes of the application of the standard must obviously be formulated on an objective basis. The degree of discretion inherent in the budgetary method often led to its use as a means of controlling the expenditure choices of the individual through an administrative acceptance of one type of choice and disapproval of others. Conversely, however, if the benefit were to reflect the individual's own expenditure choices, the amount of the benefit would lie within his own control.

It would seem that the administrative process can be effective here when operating on the basis of legislatively formulated criteria of classification. Thus, the legislature may establish a general standard of benefits. Then it may give the administering agency the authority to adjust the benefits in accordance with factors which affect the purchasing power of the benefit,⁵⁶ but which are reasonably free of any direct influence from or upon individual expenditure choices. In addition to changes in the level of prices, these factors may include the assisted person's living conditions (such as rural or urban), and also health characteristics that significantly affect living costs.⁵⁷ Thus, legal equality is to be measured in terms of the cost under classifiable conditions of the minimum standard of living sought to be underwritten.

The amount of the benefit must also reflect, as the Social Security Act does, valuation of the individual's other resources. But the "standard" of assistance must be measured by the amount payable to a resourceless individual. Utter violation of principle is exhibited in the practice of disregarding other income of the assistance recipient. The base standard is then maintained only for those who have substantial outside income.

Fiscal Implementation.—By thus setting objective standards, determinate rights can be established. The extent of their enforceability in the ultimate sense is, of course, fundamentally conditioned by the terms of their fiscal implementation. Assume, for example, an assistance statute which effectively meets the conditions essential to the creation of a justiciable right with the usual adminis-

⁵³ In mothers' aid statutes, the right attaches to the mother; under the aid to dependent children definition, it attaches to the child. The indicated solution is to establish the right of each but to condition the right of the acting guardian on the presence of the child beneficiary as in the federally operated old-age and survivors insurance system.

⁵⁴ Reading older statutes leads to the conclusion that children were classified in terms of the sins of their parents, be they alien, unmarried, deserting, criminal, drunken, incarcerated, or otherwise delinquent.

⁵⁵ The traditional classification of "dependent and neglected" children fails to distinguish economic need from other bases of commitment and, indeed, they cannot be distinguished until the need factor has been removed.

⁵⁶ See Wash. Rev. Stat. Ann., § 9998-38 (Supp. 1945).

⁵⁷ Experience seems to attest that medical care is characteristically a service program though includible as a phase of the assistance program to the extent that medical service benefits are purchasable. Where personal ministrations are needed the low standards of assistance often result in having assistance payments on the residual operating costs of a publicly supported or tax-exempt institution, thus depriving the individual of choice in living arrangements. "Standards" should be objectively framed, and the independent status of economic assistance assured by law.

trative and judicial remedies. With this statute upon the books, the legislature either fails to make an appropriation to implement the statute, or as frequently occurs, fails to appropriate sufficient money to maintain the standard which the statute defines.

Let us not be concerned about the administrative dilemma at this point. The administrator can declare himself in bankruptcy, so to speak, and satisfy the defined rights in some just relation to one another. He will in general have to lower the standard if he would avoid inequalities. The more fundamental question is whether a right exists at all under the circumstances. A right, as we have said, implies an obligation; an obligation involves a commitment. The obligor is organized society itself. The legislature is left with the responsibility, exercisable in its discretion, of implementing the right, and it proceeds year after year to determine in the exercise of that discretion whether, and to what extent, the statute will be made operative.

The clear implication is that the assistance right should be defined as a general charge upon the treasury of the state⁵⁸ and supported with a permanent appropriation. This result is not made less desirable by the consequent necessity, to avoid an unpredictable draft upon the treasury, of an objectively framed and determinate undertaking. The quality of the legal right is quite as important as the quantity of the economic provision. Obviously, however, the ultimate reliability of any public commitment is a matter of degree, for nearly all laws can be repealed, even the Social Security Act itself, and contractual obligations thereby authorized may remain unsatisfied through the failure to appropriate money. Constitutions themselves are not immune.

In a printed address,⁵⁹ Alanson Willcox, General Counsel of the Federal Security Agency, has analyzed the problem in relation to the provisions of the appropriation acts which implement the Hospital Survey and Construction Act of 1946.⁶⁰ These provide that the federal share of the cost of the projects undertaken pursuant to its provisions "shall constitute a contractual obligation of the Federal Government." He points out that, as in other similar cases, "Congress, instead of appropriating the whole cost at the outset, . . . has subsequently made the actual appropriations to meet 'contractual obligations' as they have fallen due." As he indicates, however, similar commitments by Congress are for all practical purposes reliable undertakings, comparable to government bonds. Although public assistance is not a contractual obligation in the technical sense, it is a commitment undertaken through the conversion by statute of a moral obligation "into a binding and effective provision." As a practical matter, the really serious problem is not the contingency of repeal, but the reliability of the fiscal implementation.

Two States at least have made notable progress in this direction. The California Code contains a permanent appropriation implementing the grants actually made by the agency to specified groups of beneficiaries.⁶¹ Article XXIV of the Colorado Constitution provides in its initial paragraph: "A fund to be known as the old-age pension fund is hereby created and established in the treasury of the state of Colorado." It then goes on to provide for earmarking taxes to keep the fund solvent. Not unnaturally, the pension or benefit was fixed in terms of an exact sum less the income of the individual.⁶²

The importance of Colorado's example is its willingness to make annual appropriations unnecessary. Although the matter is open to argument, there seems no sufficient reason why a state which will earmark revenue for assistance should not simply make it a general charge upon the treasury. Why not give the individual the assurance of the community commitment that his ultimate sense of security demands? The time must come when the declaration and implementation of a right to assistance, taken with the legislature's realization that it is repeatedly doing what it might properly do once and for all, will lead to the enactment of a permanent self-operative system.

⁵⁸ In locally administered systems, the primary obligation rests upon the county whose officials would be parties defendant in an enforcement proceeding.

⁵⁹ See 28 Hospital Progress 329 (October 1947).

⁶⁰ 60 Stat. 1040, 42 U. S. C. § 291 (1946).

⁶¹ California Welfare & Institutions Code, § 2021 et seq. (Supp. 1947).

⁶² It may be noted that the base standard is utterly unmodulated. A more serious criticism is the limitation of the fund to old-age assistance. It is obviously important to maintain a balance in all social action.

Ultimately it may come to be recognized that all "social programs" that are undertaken should be expressed in terms of legal rights exercisable by the individual, and not as mere directives to administer forms of service or relief. The rights thus defined relate to those needs that all human beings have in common. The ultimate purpose should be to see that individuals come to regard social programs as affirmations of worth, and not as testimonials of personal inadequacy as they are often deemed today. The object must be to make law the means of ending dependency; for economic dependency is not capable of surviving a legally sanctioned security system. Dependency is inconsistent with a legally enforceable right. The administrative task should center upon facilitating the exercise of rights, rather than determining in the exercise of discretion whether or not a right exists.

III. MEMORANDUM ON PUBLIC ASSISTANCE

Prepared by the staff of the Bureau of the Budget (Nov. 30, 1953)

This staff memorandum discusses briefly certain major provisions of the Social Security Act relating to the public assistance programs, outlines recent trends in public assistance coverage and benefit levels, and presents observations of Bureau staff based on a recent limited survey of public assistance operations in certain States. The memorandum is entirely descriptive in purpose and is in no sense an expression of Bureau or administration policy in this area.

Federal grants in aid for public assistance were established in 1935 by the Social Security Act for the purpose of assisting the several States in providing financial assistance to three categories of needy individuals—the aged, the blind, and dependent children. The act sets forth certain minimum standards which the States are required to meet as a precondition of eligibility. The major ones are as follows:

1. A State program shall be in effect in all political subdivisions of the State.
2. Applicants are entitled to a fair hearing.
3. Grants to individuals must be based on need and take into consideration the income and resources of the applicant.
4. State and local employees of the program must be under a merit system.

The determination of what constitutes need is left to the decision of each State. Likewise, the States determine the administrative practices to be followed, subject only to certain administrative requirements established by the Bureau of Public Assistance.

The original formula required Federal matching of State expenditures incurred in accordance with the Social Security Act, on a 50-50 basis, up to a maximum of \$30 per case for old-age assistance and aid to the blind, and \$16 a case for aid to dependent children. This feature committed the Federal Government to pay a statutory percentage of whatever amounts the States expend, subject to the dollar limitations per case. This type of legislation which commits the Federal Government to expenditures based on factors which it cannot control is known as "open-ended" legislation.

In 1950, the Congress extended the program to cover a fourth category—the permanently and totally disabled. It also has raised the Federal matching share on three separate occasions, the last of which was the temporary increase enacted in 1952 and scheduled to expire in 1954. At present, the Federal Government pays to the States, on behalf of each recipient, \$20 of the first \$25 of benefit, plus one-half of the remainder up to a maximum Federal payment per case of \$35. In the case of dependent children the Federal Government pays \$12 of the first \$15 plus one-half of the remainder up to a maximum Federal payment of \$19.50 per recipient. On October 1, 1954, the matching will revert to three-fourths of the the first \$20 plus one-half of the balance up to a Federal maximum of \$30 for categories other than dependent children. A parallel change will take place in aid to dependent children.

The Federal Government also pays one-half of State and local administrative expenses. The only restriction is a limitation that expenditures be found necessary for the "proper and efficient administration" of the State plan.

Federal expenditures for public assistance for the past 8 years were as follows:

	<i>Million</i>		<i>Million</i>
1946-----	\$421	1950-----	\$1,123
1947-----	644	1951-----	1,186
1948-----	732	1952-----	1,178
1949-----	921	1953-----	1,330

Average monthly benefits for the country as a whole (exclusive of Puerto Rico and the Virgin Islands) were as follows in August 1953:

Old-age assistance-----	\$51.46
Aid to dependent children, per family-----	87.54
Aid to the blind-----	55.73
Aid to the permanently and totally disabled-----	56.41

This national average conceals considerable variation in the average benefit payment in the several States. Average payments for old-age assistance range from approximately \$27 to \$78 (exclusive of Puerto Rico and the Virgin Islands).

Caseloads have been declining gradually since the middle of 1950. In the case of old-age assistance, which constitutes the bulk of recipients, the caseloads declined from 2.8 million to approximately 2.6 million at the present time. Prior to the middle of 1950 there had been a long gradual rise in the number of recipients. To a less marked degree, the other large category—aid to dependent children—has followed the same pattern. Average benefits, on the other hand, have been rising gradually in all the programs. This factor and the statutory increases in the Federal share, account for the rise in expenditures over the past several years.

The committee has requested a report on the recent field observations of Bureau staff relative to State public-assistance programs. It should be understood that the Bureau of the Budget is not prepared to express a considered view as to the soundness of State-operated public-assistance programs, at this time. Insufficient direct observation and study have been undertaken by the Bureau's staff, and it would be inappropriate to assert conclusions on the basis of the sketchy data now available. It is possible, however, to summarize for the committee the facts as they appeared in our limited review of the current situation.

The rapid and limited survey made by Bureau staff last summer covered about 10 State public-assistance programs. Substantial variations in concepts and administration were found to exist among the States. This is attributable to the fact that such functions as the establishment of standards of eligibility, definition of need, and the development of operating procedures under the law are left largely to the judgment and discretion of the individual States. Our comments will be limited to the effects of these variations upon the characteristics of the State programs.

EXTENT OF PROGRAM

The percentage of the aged population on the assistance rolls in these 10 States varied from 8 percent in one State to 46 percent in another. In the aid-to-dependent-children programs, the percentage of children on the assistance rolls ranged from less than 2 percent in one State to 7 percent in another. It would appear that the agricultural States, which do not get the full protection of old-age and survivors insurance, have to place major reliance on public assistance. Average monthly payments for old-age assistance varied from \$38 in one State to \$78 in another. In aid to dependent children, the average payment varied from \$60 per family in one State to \$122 in another.

FINANCING

In a majority of the States visited, no local funds (as distinguished from State revenue) were used for federally aided categories. In a minority, the localities contributed some portion of the cost of the program—varying in size from one-sixth to one-third of the total cost. In one State local funds were contributed in every program except old-age assistance.

In three States there were State revenues earmarked for public assistance and in one instance local revenues were earmarked. In one of these States, earmarked taxes were devoted exclusively to public assistance and could not be used for anything else. In another the general fund had a claim on earmarked taxes in excess of the needs of the program, and in a third there was a limitation on assistance funds which in effect made it impossible to pay applicants the full

amount called for by the State's standard. The Federal share of the total cost of the State programs varied from 65 percent in one State to 36 percent in another.

ELIGIBILITY AND DETERMINATION OF NEED

Eligibility standards varied considerable, especially in respect to limitations on real and personal property. In none of the States visited did ownership of a home disqualify an applicant, but most of them placed some limitation on the equity which an applicant may have in his home. This limitation ran as high as \$10,000 for blind recipients in one State. Two others exhibited very liberal treatment of homesteads. Allowances for personal property, including cash, varied from a few hundred dollars to what would appear to be a potential of several thousand dollars (applicants were permitted to retain automobiles, refrigerators, and radios).

Only half of the States had lien laws, i. e., statutes permitting the States to collect public-assistance payments from the estates of deceased beneficiaries. In the other States, there was no recourse against the property of deceased recipients. Three States had some form of relatives' responsibility law, requiring adult children to support their parents. Only two had both a lien law and a relatives' responsibility requirement. In one case, a State experienced repeal of its lien law as a result of public reaction.

In two States it was reported that eligibility changes had brought about significant changes in caseloads. In one, there were periodic increases in real-property limitations which resulted in rises in caseloads after each increase. In another State there was a sharp increase in the old-age assistance caseload when property and other restrictions were eased. This was later counteracted in part by legislation which tightened up some of the requirements. These episodes, coupled with the fact that the two States with both a lien law and a relatives' responsibility law had the lowest percentage of aged on their assistance rolls, indicates how responsive caseloads are to eligibility conditions.

DETERMINATION OF FINANCIAL NEED OF APPLICANTS

The visited States were about equally divided between those which imposed State dollar budget standards to determine payments to recipients and those which provided an itemized budget which could be priced locally. In some States, there were periodic adjustments for price changes while in others the timing of changes did not follow closely upon cost-of-living changes. Most States appear to allow for special requirements of applicants. In some instances these include such items as moving costs in cases of eviction, laundry costs, house-keeping services when considered necessary, transportation, and in some cases, restaurant meals.

Most States were currently meeting the entire budget requirements of applicants as set forth in the State's standards. In the others, recipients of aid to dependent children and general assistance were receiving only part of what the State standard called for while those on old-age assistance and aid to the blind were generally getting the full amount. In instances where some outside income was available to an applicant, the amount of such income was deducted from the budgeted need of the applicant in determining the amount of his assistance payment.

Medical costs as a rule were provided on a special-needs basis, but some States had limitations on various types of medical services. In two of the visited States it appeared that people who might not otherwise be eligible for assistance would be eligible for medical care if they could not afford to pay for such care themselves.

OASI AND OTHER INCOME

There was not much readily available information on the extent to which public-assistance payments supplement outside income, except for old-age and survivors insurance. It is known that about 17 percent of the public assistance caseload, over the Nation, also receive old-age and survivors insurance. In these instances, the OASI payment is deemed inadequate so that a supplementary assistance payment is required.

PRIVATE WELFARE AGENCIES

It appeared generally that private welfare agencies were concerned with family adjustments, child placement, and in some cases medical assistance. Their

role in the payment of public-assistance benefits seemed to be of a relatively minor nature.

In one State it was pointed out that private social agencies have spearheaded movements to improve program standards and obtain better understanding of welfare. This was cited as an indication of how public and private agencies may work together—with the public agency operating within an established legal framework and the private agency performing a pioneering, experimental function.

REHABILITATION AND OTHER MEASURES

Several of the States visited reported pilot studies on rehabilitation of assistance recipients. Two other States were in the process of studying the effect on aid to dependent children caseloads of more intensive staff work. Conclusions had not been reached in these cases. In several States, it was reported that the rehabilitation departments found it difficult to accept the more severely disabled cases because of limited resources. This factor limits the possibility of their affecting assistance loads. In most States the number of persons removed from the assistance rolls through rehabilitation was very small. Some welfare officials expressed the view that more emphasis should be placed on the rehabilitation and employment of welfare clients.

FUTURE TRENDS

In general, the welfare officials in the States visited expected expenditures to increase over the long term. While some expected a continuation of the gradual declines in caseloads that have occurred in the past few years, a majority expected future increases, and all but a few were of the opinion that average payments would continue their long-term rise. Moreover, State administrators seem acutely aware of the increases that would occur in the event of any decline in economic conditions.

There were indications from some of the welfare officials that the program has moved toward a "pension philosophy" in the minds of some people. By this, the respondents meant that there is a tendency to look upon public assistance as something more in the nature of a retirement benefit than as a relief grant. This distinction is a subtle one. Differences between States are matters of degree rather than differences in kind. The extent to which a pension attitude prevails in a State may be reflected in such things as their definition of need and eligibility requirements; the kind of intake procedures that are followed and the degree of checking up on applicants that is done; the level of benefits; and the earmarking of special revenues for old-age assistance.

FEDERAL-STATE SUPERVISION

In all the States visited there was a State review of its own operations. Some were integrated in the supervisory structure while others were operated as special review units. Two States reviewed local operations on a 100-percent basis while the others used spot checks. No indication of unlawful or improper expenditures for administration came to the attention of Bureau staff. At the same time, it appeared that the Federal Government, although it pays for half of the administrative costs, has no real discretion over expenditures so far as efficiency of operation is concerned. There were individual instances where the Bureau of Public Assistance had given advice and consultation to a State on a management or administrative matter, but these were relatively few. Some State people quite frankly stated that any efforts by the Federal Government to bring about changes in methods of administration might be resented as unwarranted interference with the State's rights.

LOCAL PRACTICES

It was not possible in the course of short visits made by Bureau staff to evaluate the quality of the intake procedures. Generally, they seemed sound although there were one or two instances where the follow-up appeared weak in the sense that the client himself was the primary source of information and, in many cases, supporting documentary evidence as to checking accounts, insurance policies, and the like was not required. Most of the States require reinvestigation of applicants on a more frequent basis than the Federal Government requirement of an annual reinvestigation. The consensus seems to be that the Federal requirement is minimal and that reinvestigation of the more changeable caseloads,

such as aid to dependent children and general assistance, should be made on a more frequent basis.

The relations between welfare departments and law-enforcement officials seem to be improving but several barriers were cited, e. g., understaffed district attorney offices, inability to locate responsible kin, disinterestedness on the part of certain judges, and in the case of aid to dependent children, the frequent inability of absent fathers to make any contribution when they are discovered. Indicative of these difficulties is the fact that 898 cases were referred to the county attorney in 1 State for prosecution for failure to support dependent children, but only 247 of these were sent to a grand jury and the ultimate convictions numbered only 62. In another State, 110 cases were referred to law-enforcement officials but support for the family was obtained in only 7.

IV. PUBLIC WELFARE AND THE INCENTIVE STATE,¹ AN ADDRESS BY JARLE LEIRFALLOM, DIRECTOR OF SOCIAL WELFARE, STATE OF MINNESOTA, PUBLISHED IN PUBLIC AID IN ILLINOIS, NOVEMBER 1949

Public welfare functions today under a set of noble and praiseworthy concepts. These concepts, taught in our schools of social work and proclaimed by our professional organizations, have in fact become so much a part of us that we do our work under their guidance. I am thinking of such concepts as respect for individual rights, a nonjudgmental approach to human situations, equal treatment for all persons, respect for democratic processes. As a social worker I am proud of these concepts, and without them the high character of the profession would be greatly diminished. These concepts must be preserved.

I believe, however, that there is need to develop certain additional concepts equally praiseworthy and important. In the absence of these as yet undeveloped concepts, I believe social work has failed to contribute to American life some things which it alone can contribute. I believe it is time for the solid citizens of the traditional American type who are in social work to take the leadership in adding to social-work credos some basic concepts consistent with the American way of life, born of good public policy. I am thinking of concepts regarding subjects such as these: "What is real social welfare?" "How can individual initiative, resourcefulness, and independence be retained?" "What about the welfare state?"

IN SUPPORT OF FREE ENTERPRISE

One of my pet peeves is that social work as a profession has been very watery in its support of our free enterprise system, our economy based on individual initiative. I have never heard a social worker get up on his two feet and defend our free enterprise system as one of the priceless advantages of American life, to be maintained at all costs. I have heard many social workers talk on the other side of the question or talk around it as though their convictions lay elsewhere. This gives social work a bad name. And worse than that, I believe such a position is wrong. It should not take much reflection to realize that materially, at least, the key to social welfare is high production—high production with a well-developed social conscience. Our relief standards in this country are higher than the wage standards in many other countries. Without high production and wealth that comes from labor and work, social welfare is an empty and meaningless thing. Certainly point No. 1 in any social-welfare program should be the maintenance of an economic and social system which yields high production and makes material resources available with which to work.

Our incentive economy is not only important for the material benefits which it yields, but also for the spiritual and personal benefits inherent in the system. Under our system you aspire to anything your little heart desires. You can aspire to be a lawyer, farmer, banker, teacher, millionaire, even a welfare worker if you want to, in accordance with your ability and circumstances, many of them under your own control. This opportunity of economic choice is so closely linked with personal freedom that to threaten the economic phases of this system strikes at the very roots of the social and personal phases. Therefore, purely from the point of view of emphasizing the rich benefits that come to the individual from living

¹ From an address published in *Public Aid in Illinois*, November 1949.

in a free society, social workers should be the first to step up and defend it, and doubly so when they consider that it yields not only this great personal satisfaction but also the greatest material benefits with which social workers work. It parallels George Bernard Shaw's great compliment to marriage, in which he explained why marriage is so popular and wonderful. He said, "Marriage is such a wonderful thing because it combines a maximum of temptation with maximum opportunity."

I have construed an "Incentive State" to mean our traditional American way of life, our free enterprise economy. I understand it to mean that an individual can choose a line of work in which he is interested and apply as much energy, initiative, and resourcefulness as he is willing and able and enjoy the benefits of his labors above and beyond the benefits enjoyed by his neighbor who does not make so great a contribution. In business he is entitled to enjoy the rewards of taking wise risks in the development of enterprises and the investment of his capital and labor.

FEAR IS A VERY VALUABLE THING

Perhaps one of the reasons social work has been so lukewarm on this subject is the fact that our free-enterprise economy is based on a system of rewards and punishments wherein fear plays a large part as an incentive to work and produce. Fear has been greatly maligned and abused. Someone made it public enemy No. 1 in our vocabulary. Fear of consequences and a system of rewards and punishments have been considered cruel and antisocial, and great efforts have been made to get around the hard facts of life by the promise of complete security, complete care of all, in order that all might abandon fear and punishment due to circumstances within their control as well as those outside their control.

Fear plays a great part in my life, and I consider it a very valuable thing to me and my family. We live at a lake. Fear that my children may drown or be harmed causes me to spend my time watching them carefully when they play on the lakeshore. They enjoy splashing in the water, and my wife and I get tremendous satisfaction out of their laughter and joviality when they do so, and it hurts us to deprive them of this joy. Yet fear causes us to expend our energy watching them and detracts from their pleasure many hours of the day when they might be allowed to play in the water but are not permitted to do so lest they be harmed. Or I might point out that there are many things that I would like to buy for my wife and children which we cannot afford; yet we spend three or four hundred dollars a year for life insurance, again impelled by the fear that the breadwinner might be killed and we would want our children to be provided for. Parenthetically, this concept is being increasingly ridiculed as a silly viewpoint in view of the adequacy of aid to dependent children and old-age assistance grants.

Perhaps the thought underlying all this would be more palatable if it were to be called, instead of fear, concern for the future. Let's call it concern for the future. Actually, concern for the future is one of the most valuable things of which man is capable, because it not only creates the desire to work and produce and do many fine things but it also gives man the vision to think, not only of himself, but of generations ahead. I am sure that many of the greatest things of life have grown out of a concern for the future, and it is indeed unfortunate that social work has had such a large part in abusing the concept of fear and concern for the future as an incentive in life, together with a system of rewards and punishments which is inherent in a free economy and a free society.

THE WELFARE STATE: AN ILLUSION

Today, there is much chaos in the thinking about the welfare state. The public is greatly concerned about this matter and would be grateful for clarification of the issues involved. These issues should be sufficiently clarified to make possible intelligent choices about the welfare state rather than have government slide along in the direction of greatest pressure.

It is my opinion that social work should announce itself, stand up and be counted on this important subject. I believe social workers, better than anyone else, can state that the concept of the welfare state is an illusion, a very dangerous one. The welfare state can well be compared to the mirage which a thirsty man chases across an unwatered desert. The harder he chases it, the sooner will come his end. Work, production, application, the desire to contribute lie at the root of genuine welfare; not a concoction of schemes as to how to get something for nothing. If each individual thinks of his government

mainly in terms of what government can do for him and how much he can get from it, government soon becomes a giant cow whom everyone is attempting to milk. My group milks the cow in the afternoon, having spent the morning feeding the cow while someone else milked her.

One writer has put the proposition this way: "Our society and economy is divided roughly into two groups. One is the producing incentive group, the other is the nonproductive consuming group. Today more and more burden is falling on the producing group to support and pay for the nonproducing group. For example pensioning movements, such as those which flourish so vigorously on the Pacific coast, aimed for beyond the normal obligations of the paying members of society to the nonpaying. Their central aim is to get as much as possible for the largest possible group, in the shortest possible time. Productive workers are expected to support the nonproductive groups with increasing liberality, which means a steadily increasing burden on production. This can go on for a while, but in the end it must mean the impoverishment of the whole nation. A society which progressively penalizes its producers for the benefit of its nonproducers is headed for trouble."

THE URGENT SEARCH FOR A REVERSE GEAR

The second law of thermodynamics is a hypothesis which has not yet been disproven, and until disproven will stand as a fact of life. It states that all forms of physical energy tend to level off and become unavailable for use, and no reverse process has been found to stop this leveling off and this gradual deterioration of physical energy. Some day the world will be cold, motionless, and dead unless the reverse process is found.

There is, in my opinion, a striking relationship between this law of physical energy and the concept of the welfare state as a leveling off of social and personal energy and resourcefulness. Just as physicists have strained every brain cell to find a reverse process to stop the leveling off of physical energy, so also social workers should in our society strain every effort to find a reverse process to stop the leveling off and dissipation of personal and individual energy and initiative.

The first step in that process, in my opinion, is to label frankly the welfare state as much of an illusion as the illusion of full employment which two neighbors might dream up by agreeing to pile rocks in one another's yards. The one man piles rocks in his neighbor's yard in the morning and picks them out of his yard in the afternoon where the other man piled them during the morning.

TWO BIBLICAL ADMONITIONS—AND SOCIAL WORK

The second step in finding a reverse process against the welfare state is to resort to the Biblical admonition to "feed the hungry, clothe the naked, take care of the poor." Social work should continue to do as it has so ably done in the past: We should make known to our people the needs of dependent children, the needs of the aged, the need for rehabilitative mental hospitals, the best methods of taking care of the unemployed. About this we should continue to be adamant. We should, however, read the corresponding portion of the Biblical admonition which says that "by the sweat of thy brow shalt thou eat thy bread." Every able-bodied man should be expected to work with a minimum of foolishness about his ego and his libido and the open-end frame of reference. Individuals should be expected to use their own resources to the limit. Social workers should state equally flatly that the "pension" and "grab bag" concept of government, using government as a tool, which seems to be so popular today is a desecration of the American way of life which should not be permitted, and which if followed to its logical conclusion by every group that has access to government, will soon be like the mirage which causes a man to chase across the desert to an early end.

In this connection I would like to call your attention to the words of Chancellor Dean Mallet, of the University of Kansas, who says in part: "If one protests that people lean too much on Government, he is likely to be dismissed as a dark reactionary who favors the most medieval forms of laissez-faire. Would he deny benefits to the disabled veteran? Would he abolish unemployment insurance? Does he believe that Government has no responsibility for the welfare of its citizens? The questions are sharply barbed with accusations. They're designed to wither the most insensitive souls. And of course, they miss the point entirely. The point is that no people can prosper and enjoy the good things of life by living off Government. The way to a greater abundance does not lie through the Government at all; it lies only through production."

I'll wager to say that there is not a single social worker who does not know that in the selfish grab, which special groups make, the crumbs fall to dependent children, mentally incompetent persons, juvenile delinquents, and the weakest members of society. One of the high callings, therefore, of social workers, is to defend the weaker members whom they represent, by fighting to the utmost the tendency of pressure groups to make selfish raids upon public funds.

THE VISTA OF TOMORROW

Now let me ask a question about the vista of tomorrow. What should be the attitude of social work toward Government? Should social workers also seek to become a more effective pressure group, or should they make an effort to stop the trend in that direction, realizing that government by pressure groups is a cheap concept of democracy. Representative democratic government faces a crisis. I have come to that conclusion after having observed several legislatures at close hand, and noting how laws are passed. Groups use special skill in organizing themselves for the purpose of putting pressure upon government through elected representatives. Government becomes a trading post for these groups. It gets to be the tool rather than the arbiter in the large affairs of men. It seems that all representative government can do is to vote more and more benefits to each group that comes along. There must be an end some time. Old-age assistance recipients come in with pressure on their representative and he cannot turn them down. Veterans come in, and they cannot be turned down. Dentists come, and they can't be refused. Teachers have a powerful lobby, and there is no stopping them.

I have before me an article entitled "Don't Be a Monkey," and it says: "One way to catch a monkey, it is said, is to tempt the creature with bait placed in a small-mouthed bottle. The eager monkey can slip his arm through the opening when his hand is empty, but once he has grasped the bait he can't pull free. So intent is he on getting the bait that he won't let go, and therefore stays stuck." The same bait can be used to make monkeys out of men. Call the bait Government subsidies, and the bottle Government control. Call the monkey any one of the growing number of members of labor, farm, and professional groups who delude themselves that they can snatch the bait without being stuck with the bottle.

When an individual sets out to achieve the good life, he cannot find it solely in one place. That is, he cannot find it in work alone nor in recreation alone. Basically, and I am probably oversimplifying this, he finds the good life in his home, in the church, in the economy, and in good government. The contribution of the home and the church are obvious. The contribution of the economy and government should be equally obvious. The economy provides him with material things, and the opportunity to work and produce. Good government should safeguard his possessions, and protect him and his home, and should set up the necessary rules to keep individuals from infringing on one another's freedoms. Society is in a bad way when it begins to mix the functions of the economy and that of government. We are all acquainted with the separation of church and state, and countless men will go into a furious rage at the thought of mixing these two. These two powerful forces have been kept apart through the centuries, even though existing side by side. This has been possible because there has been no confusion about the two. Such is not the case so far as government and our economy is concerned. These two are becoming hopelessly mixed, and I believe the average citizen is very fuzzy in his thinking on the separation of the two. In fact, many citizens want the two to become more and more mixed and confused. Therein lies the great danger of the welfare state—the fact that there is no clear consciousness of the need to keep our economy and our government separate; rather, a will on the part of large groups in our population to mix the two even more can be disastrous to the country.

Government should be the arbiter in the large affairs of men, laying down democratically agreed upon rules for individuals and groups, pursuing their social and economic functions. Government, being a referee in the social and economic game, should not step in and play the game. Like a sports association or a referee of a football game, government should stay out of the field of play just as much as we expect a referee to refrain from picking up the ball and running with it.

I used to live on a farm. On the farm we had horses, cows, sheep, a dog, and various other odds and ends. Sometimes on Sundays after church when we were not required or permitted to work, we thought up a lot of funny things to do. Occasionally we would see if we could ride a pig, harness a dog, or even milk

a horse. When we rode the pig we would be dumped in the mud, when we harnessed the dog he would get himself tangled up in the rope and would go nowhere, and when we tried to milk the horse we would have to dodge his hoofs. Imagine a farmer so stupid that he would try to make a living by milking his horses, riding his pigs, and hitching up his cows? Yet that is precisely what we are doing today in government so far as the welfare state is concerned. And there are many people so unenlightened (and I should say stupid) that they are trying to make their living off government, but the sad fact is that government cannot produce a living for individuals except in a completely socialistic or communistic state, and the end result of seeking a living from government is to achieve a socialistic or communistic state. In fact, you must start out with that assumption to begin with. In communism, government owns all resources, all means of production, all items produced, and distributes them to the people. In Russia for instance, the government also controls the church and the home, being all inclusive. At least in that respect we are a long way from communism because before communism can prevail these independent elements must be swallowed up by government rather than kept separate as they are in this country. But can any intelligent person mistake the trend for what it is when government is increasingly swallowing up and controlling our economy?

OPTIMISM STILL POSSIBLE—IF

It seems that representative government has no reverse gear. Today the medical profession believes it is on the brink of a precipice, the doctors feel that government without reverse gear is going to push them over the brink with irreparable damage to a system which it believes is inherently valuable. Some of us feel that government without a reverse gear is pushing toward a welfare state which, when supposedly achieved, will be an illusion purchased by a great loss of personal freedom.

Do you not agree that we have many serious things to think and talk about? I do, and I am optimistic. I feel very much like Agnes Meyer does, speaking at the University of Minnesota: "I have no doubt that we shall be able to conquer every dangerous social trend at home and abroad, and invite mankind toward its destiny of truth and goodness, if we only continue to love liberty more than all else in the world, but liberty demands self-discipline of mind and character, perpetual effort, and a willingness to sacrifice a lesser to a greater good. Millions of people the world over have bartered their freedom for the specious security of dictatorship because it is the easiest thing to do."

V. PROVISIONAL RECORD OF THE SOCIAL SECURITY CONSULTATION ON INCOME MAINTENANCE AND MEDICAL CARE, UNDER THE AUSPICES OF THE INTERNATIONAL LABOUR OFFICE, JULY 9-12, 1943, MONTREAL, CANADA

PREFACE

A happy concurrence of circumstances allowed the International Labour Office to arrange for a meeting of authors of social security plans and outstanding experts at the very moment when social security holds the centre of public attention. The meeting was of an informal and private character, so that the participants could feel quite free to express their personal judgments without engaging the responsibility of the administrations to which they belong. The meeting afforded the opportunity for an exchange of views on new trends of social security policy, as well as for detailed scrutiny of a "Plan of Discussion," submitted by the Office, which listed the main problems involved in the establishment and organisation of comprehensive social security services with special reference to income maintenance and medical care services.

The Consultation made it possible, as no other means could have done, to draw out a wealth of ideas from the stored experience of the experts. Their observations have been transcribed in full in this provisional record, for the benefit of each and of the Office, which will greatly profit by them in its future work.

Part A reproduces the background material under the heading "International Approaches to Social Security."

Part B is made up of the introductory remarks of the Acting Director of the International Labour Office, Mr. E. J. Phelan, and of the Chairman, the Honourable Ian A. Mackenzie, Minister of Pensions and National Health of Canada,

together with statements by the experts concerning the present state of their social security programmes and plans for future developments.

Part C includes the detailed comments on the substance of the Plan of Discussion. The paragraphs, which were numbered serially, are reproduced at the appropriate place in the record. Paragraphs which appeared to call particularly for comment are underscored.

Part D consists of the report of a special Medical Sub-Committee.

Part E comprises the closing address of the Chairman and closing remarks by the Chairman of the Governing Body of the International Labour Office, Mr. Carter Goodrich.

Part F contains a resolution introduced by Mr. Edgardo Rebagliati and adopted by the group, a recent speech by Mr. Arthur J. Altmeyer on International Co-operation in Securing Social Security and a bibliography.

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PART A.—INTERNATIONAL APPROACHES TO SOCIAL SECURITY

SOCIAL SECURITY IN THE WORLD TO-DAY

101. The intention, declared in the Atlantic Charter, "to bring about the fullest collaboration between all nations in the economic field with the object of securing for all improved labour standards, economic advancement and social security", has stirred the peoples everywhere with hope, and stimulated governments in many countries to plan social security measures or reform their existing services.

102. The idea of social security, indeed, is now in the enlarged scope of its purpose and in the understanding it implies of the interdependence of social well-being and economic efficiency. Social insurance, of which social security is to-day's interpretation, has matured and expanded over the last half-century, so that, by 1933, classic expression could be given to its principles in a series of Conventions and Recommendations, constituting an "International Social Insurance Code".¹

103. During the brief lull after the end of the great depression, social insurance entered upon a fresh stage of development. There was advance in Europe, especially in children's allowances. The New Zealand Social Security Act, 1938,² pointed the way towards a universal coverage of persons and needs, scarcely attained outside the U. S. S. R. In 1939 the United States took a mighty stride in the improvement of its Social Security Act.³

104. Progress was slowed, but not halted, by the outbreak of war. Even among the active belligerents—on both sides—adjustments and extensions were made, piecemeal it is true, since fundamental changes were not practicable for them. The Americas, meanwhile, redoubled their interest in social security and addressed themselves vigorously to the design and application of new programmes. Late in 1939, the American nations, meeting at Havana under the aegis of the I. L. O., reaffirmed and extended the Inter-American Social Insurance Code they had drafted earlier in Santiago,⁴ and stressed the necessity of social security for agriculture.⁵ In Chile, far-reaching measures for the reform of social insurance and medical care were considered in 1941⁶; Ecuador, in 1942, thoroughly reorganized its social insurance⁷; while Peru was equipping its sickness insurance with a network of hospitals and dispensaries.⁸ In September 1942 Santiago was the seat of an all-American conference which hammered out a new structure of social security (Declaration of Santiago).⁹

105. A fresh impetus has been given to the social security movement in every land by the Report on Social Insurance and Allied Services, which bears the signature of Sir William Beveridge.¹⁰ There followed in quick succession: the Mexican Social Insurance Act of December 1942¹¹; the reports for Canada presented by Dr. L. C. Marsh¹² and by the Advisory Committee on Health Insurance headed by Dr. J. J. Heagerty¹³; the Brazilian plan for the unification of social insurance; and the Cuban decree setting up a social security committee. Most recent of all is the Wagner-Murray-Dingell Bill, introduced into the United States Congress in June 1943, which gives expression to the recommendations of the Seventh Annual Report of the Social Security Board and is supported by the organized trade union movement.¹⁴

106. All these have a common objective:

Each country must create, conserve and build up the intellectual, moral and physical vigour of its active generation, prepare the way for its future generations, and support the generation that has been discharged from productive life. This is social security: a genuine and rational economy of human resources and values (Declaration of Santiago).

This policy, be it noted, is to be executed by means that respect the freedom and dignity of the individual, as "essential and inalienable attributes of human personality" (*loc. cit.*).

INTERNATIONAL SIGNIFICANCE OF SOCIAL SECURITY

107. All the United Nations and their associates are pledged to free their peoples from want. Social security is the centre and symbol of the entire policy conducive to that end. To provide social security is the responsibility of each country individually, yet every country is interested to see that the others do so. In providing social security, a country serves both its own purposes and those of all the others. Social security is a matter of international concern, and not merely a domestic issue.

NOTE.—For footnote references, see Part F.

108. Social security is about to become a fundamental human right, and as such, is striving for universal recognition. The persistence, in a potentially wealthy world, of poverty and preventable disease is no more tolerable than slavery. The failure of any country to exert itself to remove these evils is to be regarded as an international scandal.

109. Without freedom from aggression, without organised political security, freedom from want cannot be achieved; but, once achieved, it contributes to internal stability and international peace. Social security extends democracy to the economic and social spheres. Formal equality before the law and freedom of belief and expression are underwritten by the guarantee of a decent standard of living for all who work. Thus are eliminated causes of just discontent, which may be exploited, as we know only too well, for aggression and conquest.

110. The economic aspect is twofold, in the effects of social security on productive efficiency and on the level of employment. The operation of social security in any given country, by raising human efficiency, increases its productivity and by promoting greater equality of income helps to maintain consumer demand and high employment. Production and living standards are thus raised and made more stable; and the country is enabled to engage more actively and more consistently in international trade, steadily importing more and exporting more to the general advantage. Moreover, the failure of a country to adopt a social security programme is a bad example and a handicap to those which have but recently embarked upon such a programme. No doubt, a policy of social security results, in the long run, in increased production and lower prices. There is, however, a transitional period which elapses before the many advantages of social security become effective, and during which unfair competition may develop both on home and foreign markets, on the part of countries using poorly paid and unprotected labour.

111. Social security systems may influence international migration. Their absence may deter immigration from more advanced countries. Between countries possessing social security systems agreements are necessary to enable migrants to retain their rights. To facilitate such agreements is one of the specific tasks which the I. L. O. will be called upon to perform in the future, as it has endeavoured to do in the past (Maintenance of Migrants' Pension Rights Convention, 1935).¹⁴

SOCIAL SECURITY AND RECONSTRUCTION

112. It has been asserted that social security represents "the negative side of reconstruction"; that it fosters the illusion of a Santa Claus state, and would sap initiative and the spirit of adventure. If only "full employment" were provided, all would be well and social security superfluous. This is untrue. As Sir William Beveridge has pointed out, initiative and the spirit of adventure are not the products of poverty, ignorance and disease, and are absent from countries where such conditions prevail. These qualities do not spring from the fear of destitution, but are the natural expression of vigour of body and mind. "Full employment", however desirable, is not likely to be realised without comprehensive planning. Unemployment must indeed be reduced to minimal dimensions, but even so, unemployment compensation will be needed. Illness, disability, old age and widowhood will, in any case, remain, and so will the need for "national insurance against child malnutrition". As the Right Honourable Ernest Bevin has affirmed, social security should be "the main motive of all our national life", and henceforth no society can be counted civilised which does not organise itself to provide a decent standard of living for those in work and out of work.

113. Social security services are necessary under every type of economic—and therefore political—system. Every system is judged by one test: is it capable "of translating the technical possibilities of production into actual plenty and maintaining the whole population in continuous fruitful activity" (Right Honourable Anthony Eden); does it, for the satisfaction of the needs of the greatest number, make full and effective use of material and human resources, while safeguarding personal dignity and health?

114. Social security is the stewardship of manpower. It raises the efficiency of the individual as producer. Better educated, better trained, he is more adaptable to varied opportunities of employment. His morale is more confident, his physique more resistant. Losses due to illness and invalidity are reduced, the span of effective working life is lengthened, and the onset of enforced retirement is delayed.

115. Also consumption is broadened and improved. The primary needs of all are satisfied first, and purchasing power and services are equably distributed among individuals and generations, while by child endowment the future of society is safeguarded. Social security affords therefore a sound and healthy basis for the development of those secondary needs which give colour, variety and richness to civilised life. It is a potent lever for constantly raising the general standard of living.

116. Social security calls for its independent budget. A certain proportion of the national income is earmarked for the social security services, so that it can be counted upon for long-range planning. The distribution of expenditure over the different items is reviewed from time to time, and biostatistics show their comparative efficiency. Readjustments are made according to the dictates of a social strategy which directs the strongest pressure against poverty's key positions.

117. The social security budget, explained by popular reports, makes evident to the contributor and the taxpayer just what is being done with his money and what returns in cash and kind are obtained. No matter how the budget is financed, by contributions or taxes, everyone must be made aware of the cost of social security and enabled to judge its worth.

118. The finances of social security should be managed in such a way as to promote and sustain production and consumption. The social security budget might perhaps be divided into a fixed portion to meet basic commitments, and a flexible portion. Benefit expenditures, in any case, give stability to the consumption of primary necessities; the very existence of these benefits gives general confidence to the public and so to business. The building up of reserves in times of boom through savings and their disbursement at the approach of a depression will surely contribute to the regularisation of economic activity.

MEANING AND METHODS OF SOCIAL SECURITY

119. Social security is a dynamic conception tending to inform the whole field of social policy and to determine the orientation of economic policy, both national and international. Ultimately it becomes synonymous with freedom from want. As an inspirational and unifying force this conception has great value, but for practical purposes its implications must be analysed into a series of definite postulates: persons who work according to their capacities should, with their dependents, be secure in the rights to health, education and training, suitable work for a fair wage, and maintenance whenever unable to work.

120. The conversion of these rights into realities necessitates social legislation and the corresponding services. Those measures will be in part of a regulatory nature, such as factory services, in part of an environmental nature, such as public health and housing services, and in part services to the individual such as education, medical care, employment and maintenance services. The emphasis of the social security movement is on the extension of social services to the individual in fields where people are unable to obtain by private efforts the help and care that they need. These services are consumed by individuals and *prima facie*, if they are provided free of charge, there is a danger that they will be abused. This danger, it is true, does not arise in the case of education and employment services. It is appreciable, however, in the case of medical care services and substantial in the case of maintenance services, and it is in those fields therefore that the insurance method is indicated.

121. The common tendency of all recent planning and legislation on maintenance and medical care services is to make them national in scope: to bring in the farm population and self employed and even those dependent on unearned income. As Prime Minister Churchill has said: "The time is now ripe for a great advance. * * * You must rank me and my colleagues as strong partisans of national compulsory insurance for all classes, for all purposes from the cradle to the grave, * * * Unemployables, rich or poor, will have to be toned up."

The two world catastrophes of the past decade—the depression and the war—have a common origin in the unpreparedness and isolation of individuals and nations. Both teach the same lesson: the necessity for co-operative foresight to withstand a common danger. That lesson well learned yields social security and collective security, and the understanding that neither is possible without the other, and social justice a prerequisite for both. It has been well stated by Prime Minister Mackenzie King that "what is needed, if social security measures are to be effective, is not only a national minimum for industrial workers in any one country, but an international minimum which will help to preserve higher standards, not in one country only, but in all parts of the world."

At the end of the war the belligerents will face the problems of resettling the millions—it may be tens of millions—of men and women discharged from war industry and the armed forces. This emergency will prove whether the lesson has at last been learned. Statesmanship, the self-ordering capacity of business and the reasoned discipline of democracy will be as necessary to triumph in this emergency as in the war itself. All that planning can do to keep in step the release of war workers and soldiers and the reconversion to peacetime production must be done. But there are limits to human capacity for detailed organisations on so vast a scale, and, during the transition, mass unemployment is a possibility for which preparations must be made.

It is here that the social security services will have a major responsibility to discharge. Fortunately, the war need for manpower has forced the creation of the very instrument that is fitted to handle the problem in reverse. The employment services must be maintained at full strength, and their organisation readapted to the task of finding jobs for men, while continuing that of finding men for jobs. A vast and varied programme of training and retraining will be called for. The cruelty and waste of neglecting to help the handicapped to self-support are now understood, and the most positive measures must, this time, be taken to assure places for the disabled, from the fighting and the home fronts alike. The maintenance services for the unemployed must be rendered more liberal in their conditions and their benefits. But the payment of maintenance until employment can be offered is not the only cash assistance required. A dismissal allowance or gratuity also will be necessary to help the demobilised to re-establish their homes. Many aged workers, who rejoined industry during the war, may be encouraged to retire by affording adequate pensions.

A sound and well-integrated programme of social security will thus contribute much to ease the transition from war to peace. But it is to social security as a permanent feature of postwar society that the aims and hopes of people everywhere are directed. Therefore, "this is the time to strengthen, not weaken, the social-security system. It is time now to prepare for the security of workers in the postwar years" (President Roosevelt).

PART B.—NATIONAL STATEMENTS

FIRST SITTING, FRIDAY, 9 JULY (AFTERNOON)

The meeting opened at 2:45 p. m. Mr. E. J. Phelan, Acting Director of the International Labour Office, was in the Chair.

Mr. PHELAN. Mr. Minister, your Excellency, Gentlemen: I want to bid you welcome to the International Labour Office, and I want at the same time to thank you for accepting the invitation which Mr. Stein sent to you on my behalf to attend this meeting. I think nobody will disagree that the subject which you are going to discuss, the time at which you are going to discuss it, and the place in which you are going to discuss it are specially appropriate.

It is a platitude to say that this war is a war of an unprecedented character. It is a war which is being fought not solely with military weapons; President Roosevelt put that in a very vivid and dramatic phrase when he said, in addressing the International Labour Conference at the White House, that Berlin has become the slave market of Europe. I will not expand on the significance of that phrase, but it does lead to a conclusion which is pertinent to the discussions you are about to undertake. It leads to the conclusion that a war which is not fought solely with military weapons cannot be ended by solely a military victory. Men everywhere are aware that more is at stake in this war than their lives and the lives of their sons, their brothers, or their relatives. Men everywhere are more earnestly decided than ever before that this kind of thing must not and shall not happen again. Therefore they are prepared to see certain military restraints put upon the aggressors; but they are prepared also, and if I read public opinion aright they demand that, in addition to those indispensable military restraints, steps shall be taken to eliminate the economic and social ills that allowed the Nazi and the Fascist dictators to mount on stepping stones of despair and disillusion to evil power. They are determined to eliminate social and economic evils, so as to strengthen the democracies and thereby to render the democracies more immune from future attack.

The fundamental programme for achieving those objects has been set forth in brief form in the shape of the Four Freedoms. I sometimes think that when your particular problems are being discussed, too much emphasis is laid upon one of those Freedoms, namely freedom from want. We all realise, of course, that the freedoms are equal and interdependent, but I have always felt that your prob-

lems come just as much under the heading of freedom from fear as under the heading of freedom from want. Freedom from fear is commonly interpreted as freeing the nations from the threat, or the danger, of external aggression, but it is equally necessary and equally indispensable that democracy should destroy the fears that haunt and hamstring the individual—the fear of the hopeless search for employment, the fear of the destruction of the prospects and of the prosperity of the family arising out of sickness, the fear of the economic results of an addition to the family, the fear of a pauperised old age, and the fear of the indignity of charity. Seen in that perspective, the subjects that you are going to discuss today and the following days are just as central and as fundamental as the freedom from external aggression. There is indeed no priority between the social freedoms and the political freedoms.

Now, if that is, briefly, a description of the background of your discussions, what is it that we want you to do? What we ask of you is to be yourselves. We hope that you will talk freely and frankly. We do not expect you to conciliate one another's ideas. We do not expect you to present us with an agreed report. What we do hope you will do is to pour out, for your common benefit, the riches of intelligence and experience which you all possess. We hope you will engage in a free exchange of ideas, a pooling of experience, and that you will display a willingness to listen to the comments and to reply to the questions of your colleagues if they have questions to put, as no doubt they will.

I have only one last observation to make, and that is that all the knowledge, all the expert investigation, all the analysis and synthesis of ideas, is not, as the International Labour Office too well knows, enough in itself. After the collection and analysis of information, after the formulation of a plan, comes the second half of the task—the essential half in one sense—namely, the task of securing action to put the plan into force; and there not only the International Labour Office but every community must depend upon the politicians.

We are particularly happy—I think I can speak for you as well as for myself and my colleagues of the International Labour Office—to have with us today a member of the Canadian Cabinet, the Minister of Pensions and National Health of the Dominion of Canada. I will not take your time now, to tell you how much the International Labour Office owes to Canada, and how constantly, day by day, our debt to Canada's good will grows. I will only say that it has grown substantially more this afternoon because of the presence of Mr. Ian Mackenzie, who symbolises the power without which expert knowledge, can never be translated into concrete achievement. You represent expert knowledge, experience, imagination; he represents that political leadership without which the best expert plans must remain fading ink on disintegrating paper. And therefore I am sure I can do no better than ask Mr. Mackenzie to take the Chair and preside over your deliberations, and I know that you could be in no better hands.

(Mr. Ian Mackenzie took the Chair.)

MR. MACKENZIE. My first duty this afternoon—and it is a duty combined with a keen sense of pleasure—is to extend to this very select and very distinguished company a most hearty welcome to Canada.

Although I am not here officially as a member of the Canadian Government—but in a personal capacity—yet I have been instructed by the Prime Minister and by the Government of Canada to extend to you—on behalf of all our Canadian people—a real warm and sincere Canadian welcome.

We are happy to welcome Sir William Beveridge back to Canada after his tour of this continent. We hope he will give us the essence of his findings on how Americans look at his plan.

We welcome most heartily Mr. Altmeyer, Chairman of the Inter-American Committee, and his colleagues, and also our Latin American friends, the Chilean Minister, Dr. Grove, of Ottawa and Santiago de Chile; his colleague, Dr. Etchebarne, former Minister of Public Health and Social Insurance, and President of the Santiago Social Security Conference, the creator of the Peruvian Social Insurance, Mr. Rebagliati, the Chairman of the Social Insurance Fund of Ecuador, Mr. Lopez Arteta; the Director-General of the new Mexican Social Insurance Fund, Mr. Santos Guajardo; Mr. Saraiwa, Chairman of the Brazilian Committee on Social Security, Mr. Sandoval and his two colleagues from Cuba.

We are glad to have also several of my own compatriots from departments of the Dominion Government and particularly Mr. Pigeon, the Clerk of the Quebec Legislature.

We are glad to meet in the presence of our hosts, the members of their Governing Body, headed by Mr. Carter Goodrich, the Chairman.

Canada is indeed honoured to be the chosen meeting place for this Consultation. Canada has been privileged to provide to the International Labour Office a shelter through the storm.

We have you with us here today from many countries. You are all welcome—you are all equally welcome. We wish you—and we charge you—to feel completely at home with us. We are proud to have you here.

I desire personally to thank the International Labour Office for the honour they have done me in asking me to preside over your deliberations. I feel duly—and I trust adequately humble in the presence of so many distinguished guests—men who have not only made significant and brilliant contributions to the social progress of their own countries—but men whose social thinking has gripped the attention and compelled the admiration of the world.

I desire—at this stage—to voice my own appreciation of the magnificent work carried on for so many years by the I. L. O. The Organisation is working here under considerable difficulties—yet the old enthusiasm remains—the erudition and profound knowledge of world problems are still here. You have not allowed the fires to go out. You have kept your finger firmly—but gently and unerringly—upon the pulse of the world. You have drawn up for us here a challenging and very comprehensive agenda. Your arrangements for the Consultation are thorough and complete—and will—I trust—prove very effective. I desire to thank the Officers of the Organisation at once for the work they have done and for the arrangements they have made.

Now—let us come to our high purpose. We have before us the Atlantic Charter. It is a declaration of principles—an avowal of intent. These principles are very splendid—very inspiring—very appealing. They constitute a landmark in world history. We have the two great goals of—

1. Full employment
2. Social Security.

Can we determine here how these goals can be attained? Can we find guidance in agreeing upon the great goals of Social Security? There is no alternative between full employment and Social Security. We need both. What must be done—what can be done to establish the channels or processes by which the great principles of the Charter can be implemented?

Social Security is definitely a matter of international concern. It must also be, as Ernest Bevin has said, *"the main motive of our national life"*.

I desire to quote here—paragraph 119 of the Agenda:

"Social security is a dynamic conception tending to inform the whole field of social policy and to determine the orientation of economic policy, both national and international. Ultimately it becomes synonymous with freedom from want. As an inspirational and unifying force this conception has great value, but for practical purposes its implications must be analysed into a series of definite postulates: persons who work according to their capacities should, with their dependants, be secure in the rights to health, education and training, suitable work for a fair wage, and maintenance whenever unable to work."

I suggest—subject of course to your concurrence—that we could usefully commence our consultations—by discussing this Introductory portion of the Agenda, and then proceed to detailed discussion largely on two main themes:

1. What are the broad objectives?
2. How can they be attained?

Our brilliant advisory experts who are here can tell us what are the important points to determine—what are the most important principles to emphasise.

Can we not expand and broaden the excellent work already accomplished in the Inter-American Social Security Code, and perhaps, go even further in defining the true principles of social security in terms which will find universal acceptance? Those among us who have been representatives of the people can bespeak universal endorsement of the goals set forth in the Atlantic Charter. It will be our function to give effect to them in legislation.

Most of you are trained social scientists—who are technical advisers of Governments. Your function is to chart the methods and the technique. As scientists—you deal in the data of applied experience. Each country here represented has acquired experience in one or more aspect of the common problem.

The common objective of the Social Security movement throughout the world has been well set forth in the Declaration of Santiago:

"Each country must create, conserve and build up the intellectual, moral and physical vigour of its active generation, prepare the way for its future generations, and support the generation that has been discharged from productive life.

This is social security: a genuine and rational economy of human resources and values."

These are not matters of merely national concern, but—as has been recognised by the fact of this discussion being arranged—as well as in the Agenda—Social Security has international aspects. To mention one—it is a contribution to international peace. To the extent that the eternal struggle between the "haves" and the "havenots" contributes to international jealousies and national pressures, resulting in war, an adequate programme of social security makes a dynamic contribution to the cause of Peace.

The Agenda refers to Social Security and Reconstruction. In this consultation we should think of Social Security—not only as an objective—but as an instrument to be used in fashioning our reconstructed world.

Evolution of thinking in this field has developed a new conception of Social Security planning since 1938—involving—as pointed out in paragraph 202 of the Agenda:

- (a) decent minimum of subsistence at least, to be secured to all who work according to ability and opportunity;
- (b) medical care to be generally available;
- (c) employment services for placing and retraining workers.

In applying this new concept in practice it is also now generally recognised that the patch-work building which has characterised work in this field has ceased to be adequate or effective.

We must now—

- (1) integrate and coordinate the various social insurance institutions, and
- (2) work out an effective synthesis between them and the various plans of social welfare and social assistance that have grown up.

There has been an advance in public opinion and public understanding in this field. We no longer feel that full employment provides the sole answer to these problems. It is now realised that full employment does not do away with sickness, old age and widowhood, nor can the highest degree of employment practically attainable eliminate the hazards of unemployment from fire, flood and earthquake, or even from periodic adjustments in industry and trade. It is also becoming better understood that full employment is a necessary basis for the effective operation of any Social Security plan, if only from a financial standpoint.

The inclusion in the very title of this Consultation of the term "Medical Care" is a most significant indication of the advance in public thinking. It is a recognition that—even though we solve the problem of income maintenance—the provision of medical services for all is of social importance.

The people of our respective countries look forward to such a meeting as this for guidance on the several administrative—financial—and political problems—which have yet to be solved if we are to give effect to the people's aspirations. All representatives here have a fund of experience—out of which constructive contributions to the round table discussion can be made.

We in Canada have a national system of old-age pensions—noncontributory in method; we have had two years' experience in administering unemployment insurance, and we are now moving on into the field of health insurance. Under Government auspices we have had two committees studying and planning with regard to these subjects for several years and out of their work have emerged in recent months two notable reports:

1. That on Health Insurance drafted by an advisory committee presided over by Dr. J. J. Heagerty, one of our Canadian representatives at this Consultation. The proposals in this report contemplate universal contributions and universal health services for the entire population.

2. The report on Social Security in all its aspects from a Canadian standpoint, prepared by Mr. Leonard Marsh on behalf of the Advisory Committee on Reconstruction.

These reports and other data on the problems of Reconstruction have been the subject of intense deliberation and consideration by three able committees of our Parliament for several months past. As it befitting a democratic country these committees have heard representations from a wide variety of the groups in our population especially interested in and directly affected by these issues. Our procedure of eliciting from the public itself the most comprehensive expression of popular opinion has won commendation from sources outside our own country.

We in Canada are well aware—through the excellent publications of the I. L. O.—of what has been going on in the other nations of this twin continent

of America—and we have derived much profit from consideration of the experience of these other American countries. All of us have some contribution to make—all of us have something to learn.

Beyond the specific hazards that can be met by a programme of Income Maintenance, there still remains much to be done before we have completely vanquished the Five Giants mentioned by Sir William Beveridge: Want—Disease—Ignorance—Squalor—Idleness.

I can therefore very aptly conclude with the stirring words from the New Year's message issued by Mr. E. J. Phelan, Acting Director of the I. L. O.

"If disillusionment and disaster are to be avoided when military victory is won—the same unity of purpose—the same courage and the same determination must inform and inspire the campaign against the social evils of poverty—injustice and unemployment.

"Social security and a rising standard of living combined with the freedom and dignity of the citizens of the free peoples will only be achieved and maintained by a conscious, determined and lasting effort. The war has revealed potentialities in the democracies as unsuspected as they are full of promise and hope.

"The magnitude of the task is no more unprecedented than the possibilities of its successful achievement. If this task is to be accomplished—national action pursued with boldness and with vision—complemented by international action of like character—are both required."

And coupled with this let us bear in mind the words of President Roosevelt:

"This is the time to strengthen, not weaken, the social-security system. It is time now to prepare for the security of workers in the postwar years."

If you agree, we will now request our colleagues to make statements regarding social-security planning in their respective countries. We should have had Mr. Altmeyer here, but he will be with us tomorrow morning. I would ask him to act as Deputy Chairman of this Consultation. I have now the greatest pleasure possible in asking our distinguished visitor from overseas, a very famous world figure, Sir William Beveridge, to address this Consultation.

SIR WILLIAM BEVERIDGE. I should like to begin by thanking you, Mr. Mackenzie, for your very kindly references to me, and being the first general member of the Consultation to speak, I should like to thank the International Labour Office, on my own behalf and on behalf of all the other members, for giving us this opportunity of coming together. I personally have the greatest gratitude to them for making it possible for me to meet you gentlemen, who have been working in the same field as myself, with such a variety of experience.

I propose, if you will allow me, to speak quite shortly and in general terms, on the objects and principles of social security, and to begin by saying a few words on the use of words because I think that defining what one means by social security clarifies one's ideas.

Those of you who have read my report will know that for the purpose of that report I defined social security in a rather narrow way as meaning the security of an income to take the place of earnings when they are interrupted by such occasions as unemployment, sickness, or accident. Social security means primarily security of income (up to a limit), though the provision of an income should be associated with treatment designed to bring the interruption of earnings to an end as soon as possible. Social security, as I defined it, does not include the maintaining of employment and the finding of jobs. That is not, of course, because I regard the maintenance of employment as unimportant; it is of vital importance, but in my view the problems of maintaining employment and of social security in my narrow sense are distinct problems.

I used the term "social security" in a way in which many others use the term "social insurance." I did not feel able to use the term "social insurance," because that implies the particular method of insurance as distinct from assistance subject to a means test which I include as one form of social security. Moreover, social insurance means levying contributions on the insured persons—and many people think that we should not levy contributions on wages, but should follow the New Zealand system of raising funds for social security by a tax on income. I did not use the term "income maintenance," because I included some preventive and curative measures—measures for getting people back into employment through the Employment Services and by training and for getting people, when they are sick, into productive capacity again by medical treatment and health services generally.

I personally define social security as meaning protection organised by the State against risks to which individual citizens are exposed even when the condition

of society as a whole is healthy and prosperous. There is a certain utility in defining it that way, because it makes it clear that even when the condition of society as a whole is healthy and prosperous, when there is very good employment and rising production, there are still things to be done to guarantee the individual against risks. In fact, to put over social security in my narrow sense in some countries, particularly in the United States of America, it is necessary to argue that you cannot solve the problem of individual security merely by making the general condition of society healthy, merely by having full employment, rising production, and good wages.

Having made that clear, I would like to say one word first upon the position of my plan in Britain; and secondly, in response to the Chairman's invitation, something further arising out of my experiences of visiting many parts of the United States and of Canada to discuss social security.

As far as Britain is concerned, you probably know nearly as much as I do. I only know that the Prime Minister of Britain has announced himself and all his colleagues as strong partisans of social insurance for all classes for all purposes from the cradle to the grave. I know that the attitude of the party which he represents, the Conservative Party, is criticised by the other parties because it does not go far enough and fast enough. Substantially, I think that the only difference in opinion is between the people who want social security as soon as possible and those who want it sooner. The programme is not effectively being delayed, because the Government has said: "We accept practically all of this in principle. We will not commit ourselves to any of it finally until we can see how it and all the other things that have to be done by social reconstruction after the war can be fitted into our Treasury budget." While they are getting the data to consider that, they have committees working on the details of the scheme, and it is only a question of getting the process of working out the details of the scheme and the process of solving the financial problem finished together.

My own bet is that before the war is over the Government and Parliament and the Country will, in fact, adopt something like my scheme, to come into force after the war. I think they will adopt it, because the finances of the scheme are from the point of view of the Treasury, exceedingly solvent and exceedingly practical. An article written on it by Mr. Calter in our *Economic Journal* states that the cost of my scheme to the Treasury in the first year is represented by a tax of a penny on beer and sixpence on the income tax. If that is true—I have not verified the figures—there is no doubt at all that Parliament and the Democracy will think the abolition of want worth that price. Now I can only ask you to wait and see. I have no doubt about what the upshot of social security in my sense will be in Britain.

Now I come to the United States. There I found it a little difficult to find out what they really thought, because they are so polite and also so inquisitive. I found myself spending most of my time talking to largish bodies, instead of being able to sit round a table with parties of six and find out what they really thought. I think the mere fact that, whenever I did speak, I spoke to more than capacity is in itself sufficient evidence of the state of opinion in the United States. Everywhere I found the most friendly reception and no really serious opposition to the plan anywhere in the United States on the part of any of the people who spoke to me.

I think that probably if Mr. Altmeyer were here—and he will be here tomorrow, and will speak for himself—he would agree that there has been no sign of any immediate practical action on social security in the United States and that for the very good reason that the United States is continually getting more and more involved in the war and is still in the throes of solving war problems—the amount of control required over food and manpower and so on—things that in Great Britain we have got through because we were in the war earlier. It is inevitable that the United States should be mainly concerned with deciding how much regimentation and what kind of regimentation on the home front the war necessitates. The fact that they are also concerned with such problems in the light of a Presidential election is a circumstance fortunate or unfortunate as you may consider. Perhaps I am a foolish optimist, but I have very little doubt about there being a ground swell in favour of the development of social security in the United States, as in all other parts of the world. I believe it will become more and more clear that the development of social security is an essential part of the democratic war against totalitarianism.

It is relatively easy to solve the problem of employment security, and indeed of income security, if you solve it in combination with slavery. If there is no private enterprise—but an economy organised completely in a totalitarian way,

it is relatively easy to solve the problem of employment security. It is much harder to solve the problem in combination with private enterprise, with freedom in the choice of jobs, with freedom of trade union association, and so on, but it is essential for a democracy to solve it in combination with those conditions.

It would be easier also, to solve the problem of income maintenance if you were just going to make sure that people did not literally starve, but if you give relief subject to a means test, you destroy private initiative, and one of the essential freedoms of democracy, which is that of having an income of your own and deciding to some extent whether to save it or to spend it, and how to spend it. To combine that freedom of spending your personal income with security of income when you meet misfortune, the method is social insurance—social insurance guaranteeing you an income irrespective of your means, so that whatever you get as insurance benefit you have in addition anything you may have saved for yourself. Social security, both in my narrow sense and in the wider sense in which you use it as combined with freedom, is an essential part of the war of democracy against the dictator-Fascist tyrant-ridden countries.

I think that it will become clear—particularly for countries like America—that if they are to have private enterprise and progress, living and dynamic, with changes of employment, they must also, as a great industrial state, have unemployment insurance. It may be that Germany can do without unemployment insurance. Perhaps they have abolished it. But if you are to have private enterprise, you must have unemployment insurance. I may say that when I was speaking in the States, I urged this point, and I think met with some acceptance. One other thing has to be made clear: you cannot really leave it to private enterprise or to the individual to ensure adequate protection against these risks of sickness, accident, unemployment, etc. Such protection must be promoted by Government action and organised by the State. Because the United States came to birth in revolt against Governments, it is still perhaps a little more suspicious of Governments than Britain, but they are realising that social security must be developed by the use of the powers of the State.

Social security in the narrow sense of income security plus provision for medical service is a thing each country can do for itself in accordance with its own lights and to suit its own circumstances, but maintenance of employment—setting up a real demand for labour and maintaining the healthy economic condition of the country—although in a sense, that is also primarily a job for the Government of each country, cannot be done by any country in isolation from all others. The economic systems of all countries meet at the point of international trade, whether one has a socialist system like Russia, or a private enterprise system like the United States, or a mixed system such as we are likely to have in Britain. Therefore employment security is a harder problem than social security in my narrow sense, because it involves international collaboration much more than does social security. Social security, I think, does involve such sharing of our experience as we have today, but then we can all go away and adapt a scheme to suit ourselves, provided we realise that having social security according to our own lights is not merely helping our own country. I think that what each country does to prove that it can solve these problems of individual insecurity under a democratic system is a contribution, not only to the happiness of its own country but to the success of the whole cause of the United Nations. That is the final argument which I would put to anyone who is doubtful of the desirability of social security; that what each country does is a contribution to the victory of the United Nations as a symbol of the cause for which we fight.

The CHAIRMAN. We shall now have the pleasure of hearing from Dr. Etchebarne, who is a former Minister of Public Health and Social Insurance of Chile. I am sure you will all be delighted to hear from him.

Dr. ETCHEBARNE. Before explaining the measures that are under consideration in Chile for improving the social security of the people, I must give a short account of the schemes which are already in operation. For the sake of clarity, I divide this account into two parts, the first dealing with manual workers, artisans and small employers, and the second with public officials and salaried employees.

The present legislation applies to manual workers, artisans and small employers, with an income up to 12,000 pesos a year, providing: sickness insurance, which affords a complete set of benefits, namely, hospital care, medicines, treatment at polyclinics, dental treatment, and cash benefits; invalidity insurance, which covers only the risk of permanent total incapacity; old-age insurance,

which hardly exists at all, and is reduced in practice to the repayment of the contributions paid by the insured person himself during his insurance career; and lastly, death benefits which comprise a funeral benefit and a lump sum of not more than 300 pesos. In addition, we provide treatment for the wife of an insured person in case of tuberculosis or syphilis, but without cash benefit or hospital care; while for infants we supply milk during the first year of life and medical supervision up to the age of 2. Such, broadly speaking, are the benefits which are now being provided for this group of the inspired population.

The nonmanual workers are divided into two quite distinct groups: the first consists of public officials, journalists, and allied occupations. To these we give sickness benefits, comprising treatment at a polyclinic, medicines at reduced prices, and part payment of the cost of hospital treatment and special surgical treatment. They have also an old-age pension based on the salaries earned by them in the last three years, while pensions are provided for their widows and children. The second group, namely, the salaried employees, are not covered by a genuine insurance scheme but belong to a savings fund. There are no sickness benefits but only loans in case of sickness. They are, however, protected by unemployment benefits, which may, in some cases, be paid for as much as one year. The old-age risk is covered by the liquidation of the retirement account which has been accumulated by the contributor during his working life. There are a number of other minor provident funds covering small groups of the population: the Mercantile Marine Fund with 3,500 members, affording the most complete protection of all insurance schemes, the Armed Forces' Fund, the Carabineers' Fund, et cetera.

Operating by the side of all these insurance schemes is an act of 1938 which applies to the entire population of wage earners, salaried employees, public officials, armed forces, etc. Though it is called the Preventive Medicine Act, its object is not strictly preventive medicine, and it might more accurately be called a law for insuring prompt treatment. The act provides that at least once a year every individual should undergo a health examination directed toward the three main constituents of the national pathology: tuberculosis, cardio-vascular diseases and syphilis. The first stage of the examination consists of a summary clinical examination, a serological test, measurement of blood pressure, and a radioscopic examination. These preliminary investigations enable the doctor to direct the person concerned to specialized teams of examiners. If tuberculosis is suspected, he will be examined by micro-radiograph on the Abreu system, which in some cases will be completed by a life-size radiograph and examination of the sputum, etc. If cardio-vascular disease is suspected, an electro-cardiogram, autodiagram, etc., will be taken. In cases where the presence of the disease is confirmed, the act provides for total or partial abstention from work, with treatment either in a sanatorium or at home, and a cash benefit equal to the average rate of wages earned in the last three months. The operation of the act has enabled us to prove the existence of bidder or unsuspected disease which only systematic health examinations could bring to light. It may be said that in 1940, 26 percent of deaths among insured persons was due to tuberculosis, whereas this disease accounted for only 5 percent of the treatments given by the medical services. These figures speak for themselves. The total number of health examinations carried out by the Compulsory Insurance Fund in 1942 was 96,153, and of these 7,813, or 8 percent, gave evidence of tuberculosis, though in the best equipped examining centers this percentage is higher, so that in Santiago in 1942, out of 25,626 persons examined, 3,316 or 13 percent were found to be suffering from tuberculosis. In the course of 5 years, the Fund has granted preventive rest benefits to 22,699 tuberculosis patients at a cost of about 45 million pesos; clinical and radiological tests showed that about 15,000 insured persons, or 65 per cent. of the cases, recovered. Our experience with the Preventive Medicine Act enables us to take a hopeful view of the campaign against tuberculosis on condition that the services provided by the act are paralleled by the prophylactic measures of isolating chronic and incurable cases, and by vocational rehabilitation. Such, in outline, is the present organization of social security in Chile.

A series of measures are under consideration for extending and improving this organization. Following the plan adopted above, we shall divide the measures into two parts, according as they concern wage earners or salaried employees.

All wage earners will be insured, irrespective of their rate of wages, but artisans and small employers will be insured only if their earnings do not exceed 20,000 pesos a year. The old-age pension, varying with the cost of living, is introduced. Wives and children up to 15 years of age will be brought within the

protection of sickness insurance. Industrial accident insurance, which at present is in the hands of private insurance companies, is entrusted to the Compulsory Insurance Fund, and the rate of compensation is increased to 75 percent of the wage for married workers, and 50 percent for the unmarried during the first year of incapacity, a disability pension being payable thereafter to accident victims who have not recovered. Maternity insurance provides cash benefits during the six weeks before and the six weeks after confinement, and thereafter one-third of the same benefit during the period of breast feeding up to 28 weeks; milk and other necessary food is provided for the infant up to the age of 2.

A reform of the salaried employees' law is also in preparation with the object of providing the same pensions for them as for the wage earners, and converting the Salaried Employees' Fund into a genuine insurance institution.

There remain, however, subsidiary but important problems to be taken up, such as vocational rehabilitation schools, vocational orientation studies, etc. These services are greatly needed. Vocational rehabilitation represents, for the worker, the extension of his working life with full retention of his means of livelihood and his personal dignity, being, as it is, an effective means of preventing premature invalidity; for the insurance fund it represents prolongation of the contributing membership of the insured person, a reduction in the number of invalidity pensions and a diminution in morbidity and mortality.

Another important measure for the improvement of social security in Chile is the bill to amend the People's Housing Law. This bill would enable the People's Housing Fund to build an average of 10,000 dwellings a year which meet modern standards of hygiene.

The Chilean medical bodies are federated in the Chilean Medical Association, which systematically supports Government measures to strengthen social security; indeed, we may say that its efforts are continually directed to this object. It is safe to say that more than 80 percent of the Chilean doctors are actively employed in the medical services of social insurance.

THE CHAIRMAN. We shall now have the pleasure of hearing from Mr. Rebagliati, the Director of the National Social Insurance Fund of Peru.

MR. REBAGLIATI. Allow me first of all to thank the International Labour Office for inviting me to attend this meeting of experts, thereby conferring a distinction on my country and on myself. For the invitation not only recognises my capacity to share in this most important debate, but also enables me to discuss the ideas and methods of social security with experts possessing the highest qualifications. It may be that we Latin American officials cannot contribute the fruits of a long experience, but what we can contribute is a deep concern for social security and an open mind, since we possess the enterprise and dynamic outlook of peoples that are young, free from prejudice, bold and enthusiastic.

I do not conceal my pride in offering the preliminary statement which has been requested of me, for I can affirm that Peru has a respectable tradition in the matter of social security, reaching back to the remotest epochs of the Inca empire, to the period of Spanish rule, and to the more recent times since the foundation and development of the Republic.

A chronicler who accompanied Pizarro, and therefore witnessed at first hand the organisation of the Inca empire, stated that its laws provided for the allocation of public resources for the maintenance of the blind, the infirm and the aged, who in addition were invited to take part in the communal meals and festivities in order that "in the general rejoicing they should forget some of their misfortunes." Moreover, every Indian had property rights in a piece of land and, under a highly socialised system, enjoyed all that was necessary for the needs of himself and his dependents.

I must not, of course, glorify the conduct of the Spanish colonists towards the Indians or suggest that their policy was characterised by a parental attitude or by kindly and peaceful indoctrination. The conquistadores belonged to a cruel and fanatical age, and crossed the seas, not to convert infidels, but to get treasure. They thought nothing of destroying the peoples and enslaving the Indians. But, in contrast to the avarice and cruelty of these men, the jurists and theologians of Spain endeavoured to moderate their violence and to secure for the aborigines a more Christian treatment and a less hateful subjection. A few years after the conquest, the Council of the Indies and the viceroys endeavoured by means of ordinances to discipline the tyranny and arrogance of the colonists. It would be tedious to enumerate these provisions, but it is permissible to cite an ordinance of 1575, by which Viceroy Toledo prescribed that workers in the mines and on the estates should have the right to give up their work at the age of fifty, continuing to receive subsistence from their employers. No one will

deny that this is not an effective scheme of old-age insurance, based on the labour contract and providing for a definite retirement age and benefit. Other laws forbade the removal of Indians from areas of warm climate to cold areas, and required that wages should include removal expenses and that the truck system should not be applied in connection with the payment of wages.

The Encyclopedists and the French Revolution supplied the ideology of the leaders of the independence movement. Thus it was that the Peruvian constitution of 1822 provided that "public relief represents a sacred duty of society," the same principle having been laid down in the declaration of the rights of man. Later on, when the disturbances of the War of Independence had passed away and the military anarchy of the first years of the Republic had quieted down, there began a period of gradual advance in the recognition of social rights, which culminated in 1905 with the adoption of legislation, very advanced for America and for its time, on workmen's compensation, the employment of women and young persons, weekly rest, limitation of hours of work, labour contracts, apprenticeship and trade unions.

Since then fresh provisions covering all aspects of labour assistance and insurance have been added, showing a continual desire for improved methods and progress. The scheme of superannuation, unemployment and survivors' benefits for public officials was made general in its application. The right to compensation for length of service was recognised in the form of deferred wages in the case of private employees and wage earners; holidays with pay were instituted, and noncontributory life insurance for salaried employees was introduced; standards were laid down for the settlement of individual and collective labour disputes; regulations were issued on industrial hygiene and safety; and finally, a scheme of contributory insurance against sickness, maternity, invalidity, old age, and death was established for all manual workers.

It is this scheme which is directly pertinent to the agenda of this meeting. I desire to draw attention particularly to its special features, as distinct from those which it possesses in common with all others which are based on the principles laid down by the International Labour Conference.

As regards coverage, our law makes no distinction among wage earners in industry, commerce and agriculture, since to have excluded rural workers would have meant leaving outside the protection of insurance more than 60 percent of the population of the country. Moreover, we treat as agricultural workers share farmers, of different categories, who till the land and share the produce or pay a definite rent in produce, provided that their earnings do not exceed in value the maximum of 3,000 sols a year, i. e. the maximum wage fixed for coverage by insurance. The benefits are entirely gratuitous and, so far as sickness and maternity are concerned, comprise general and special medical care, a sickness cash benefit during incapacity and maternity cash benefits before and after childbirth and during the period of lactation. Maternity benefits in kind include the care of newborn infants and of children up to the age of two. In case of invalidity and old age, pensions are granted which consist of a basic sum, supplements in respect of contributions paid after the completion of the qualifying period, and allowances for dependents, subject to a maximum rate of 70 percent of the insured wage. In case of death a funeral benefit is granted, varying with the wage class to which the deceased insured person belonged, and a survivors' lump-sum benefit equal to one-third of the wages received in the last twelve months. The wife, parents and children of an insured person may be insured by him for the medical benefits of sickness insurance. Independent workers and persons who pass out of compulsory insurance are entitled to insure, or continue their insurance, on the voluntary basis.

Sickness and maternity insurance provides benefits in kind directly, in establishments built and equipped by the insurance institution. Thus the efficacy of preventive and curative care is guaranteed and economy is ensured. The necessity for adopting this policy was shown by the heavy cost of the public health and sanitary services, especially in the rural centres. The medical service is organised on modern lines, which make it possible to make available the advantages of prompt treatment by salaried or semisalaried medical officers, to secure the benefits of group practice and to make the best use of the means at our disposal for diagnosis and treatment. Furthermore, this policy has made it possible to concentrate in central units the numerous branches of medical care under a single authority: domiciliary visits, traveling dispensaries covering rural circuits, examinations at general and special dispensaries, and hospital treatment.

For financing the medical equipment the law has laid down a novel procedure. It provides that employers shall pay part of their normal contribution,

and the State its entire contribution, while the equipment is being assembled. In the meantime, the workers' contribution is suspended and only becomes due from the date when the medical services are ready to operate. At that time, the employers begin to pay the normal contribution laid down in the law. In this way it has been possible to plan for the construction of twelve hospitals, of which four are already in operation, for a population of about 350,000 workers; two hospitals for a group of 60,000 workers are just beginning to function, and seven more have been built but cannot be put into operation because of difficulties arising out of the war in completing their equipment.

The sketch which I have given of the development of social security in my country would be incomplete if I did not mention what the Government is now doing, in spite of unfavourable circumstances, to effect a positive improvement in the economy and social well-being of our people. In the first place, it is planning to introduce immediately a scheme of social insurance for public officials and salaried employees, covering the risks of sickness and maternity for the former and that of invalidity also for the latter. Then, there is being pursued a vigorous policy of extension of the medical assistance services: hospital capacity is being increased; all hospitals are being renovated; the system of dispensaries for tuberculosis and venereal diseases is being expanded; an anti-malarial campaign is being carried on; maternal and infant welfare services are being strengthened; and the prices of drugs are being controlled. At the same time a strong campaign is being carried on against tuberculosis, nutrition is being improved, and finally new and important industries are being encouraged, which are already resulting in a higher standard of living.

It is evident that the policies already in operation and those which are now being planned will gain in firmness and strength in proportion as social security in the post-war period is perfected and in proportion as social insurance, social assistance and private insurance, especially the two former, are interwoven, as Sir William Beveridge has recommended. He has shown us a new way, a bold design, but one which is practicable, if the nations and their rulers recognise that the time has arrived for the economic and social reconstruction of the world.

The CHAIRMAN. We shall now have the pleasure of hearing from Mr. Saraiva, of Brazil.

Mr. SARAIVA. Mr. Chairman, I must thank the I. L. O. for the opportunity to take part in this round-table discussion with such distinguished experts of world-wide renown. In fact, it is not necessary to emphasise the importance of social security; the praise, the discussion, and even the opposition aroused by the Beveridge plan, which took the place reserved in the headlines of the newspapers for war news, and the crowds gathered to hear Sir William speak, prove the importance of the problem, not only to the Governments but to all the people of the Allied Nations, and demand specific action for the realisation of its ideals.

It is also a privilege for me to have this opportunity of telling our friends and allied nations some of the achievements of my country in social security, which I think deserve to be more widely known. The expression "social security" implies with us broader meanings. In fact, we think it is necessary not only to insure workers against risks of sickness, disability, old age and death, but to protect them against what we could call social uncertainties, by means of labour legislation measures, such as provisions safeguarding tenure of employment and minimum wage laws.

In the more specific field of social insurance, Brazil was among the first countries in this hemisphere to introduce social insurance in order to improve the lot of the wage- and salary-earners. Between 1919 and 1930 our social insurance schemes, confined to railroad and port workers, were passing through their initial and experimental stage. In 1931, however, began a period of expansion for the existing schemes and a great growth of new ones, all organised along occupational lines and on a sound actuarial basis. At present we have insurance institutions for all industrial workers, commercial workers (including journalists, teachers, insurance workers, etc.), seamen, road transport workers, stevedores, public utility and railway workers, and bank staffs. The total insured membership is now well over 2,000,000 workers, while their dependants number a further 6,000,000.

Most of these occupational insurance institutions provide substantial retirement, disablement and survivors' pensions, as well as sickness and maternity benefits. Some of them have already organised their own medical services, not only curative but preventive; and some have taken over industrial accident

insurance from the insurance companies, as Sir William Beveridge recommended in his brilliant report. All of them are financed by equal contributions from the workers, employers, and the Federal Government. Large reserves have been built up, which are being used to help solve the housing problem. Thousands of houses have been built by the institutions, while thousands of insured workers are being enabled to acquire homes with money which the institutions lend them. Also, the insurance institutions have been participating in the campaign to improve the nutrition of the workers by setting up popular restaurants and selling basic food stuffs at minimum prices.

Social insurance in Brazil is now entering on a new phase of its development. President Vargas, who has been the promoter of the social insurance development, appointed a committee, of which I had the honour to be chairman, to review the entire system, and develop a plan for the unification of its benefits and contribution rates, and rationalisation of its administration. As in Great Britain, so in Brazil, social insurance institutions have come into existence one by one, and some confusion, inequalities and anomalies have arisen. Nevertheless, the experience we have gained will enable us to proceed with confidence towards an improved and comprehensive system, which, we hope, will insure all workers and will issue from the work of the above-mentioned committee and the studies which are still being carried further.

The next task, for which preparations are already being made, is to amplify the insurance medical and hospital services, so as to provide comprehensive medical care for all the insured workers and their families.

Once the organisation of our existing social insurance system has been consolidated and perfected, we intend to attack the vast but extremely important problem of social insurance for our agricultural population. Brazil, in common with the other countries of this hemisphere, has a large agricultural population, upon whose labour much or most of the wealth of the country depends. However, up to the present, the only branches of our social security legislation which apply to agricultural workers are the Workmen's Compensation Law and the Minimum Wage Law. But, as Sir William Beveridge has insisted, the benefits of social security must ultimately be extended to all occupational groups. Such is the settled policy of the Brazilian Government, for, as President Vargas has recently declared, the hope of lasting peace is vain until social justice, both national and international, is assured.

The CHAIRMAN. We shall now have the pleasure of hearing from Mr. Santos Guajardo, Director-General of the National Social Insurance Fund in Mexico.

Mr. SANTOS GUAJARDO. The subject of social insurance first came up in Mexico as an ideal and as a practical problem in 1917, that is to say, 25 years ago, when there appeared in the new Constitution, resulting from our great Revolution, a chapter securing the rights of the individual, not only as a man but also as a worker. In the well-known article 123 of our Magna Charta are included many provisions for the protection of the working class: maximum working day of eight hours for men and seven hours for women and young persons; prohibition of employment of children under 14; maternity assistance; compensation for occupational accidents and diseases; and finally, a provision to the effect that the Congress of the Union would pass legislation on social insurance to protect the workers against the consequences of invalidity, unemployment, sickness and death.

Ever since, it has been the constant concern of our Government, economists and leaders of workers' organisations to draw up projects of social insurance legislation. In 1930, the Federal Labour Law appeared which regulates the wide field of industrial relations and workmen's compensation, the liability for which is placed solely on the employers.

The Workers' movement in Mexico has been very active during the last decade. The chief trade unions of petroleum workers, railwaymen, miners, etc., have secured from the employers considerable benefits, not only in connection with occupational risks, but also with general sickness and old age. Nevertheless, the membership of these trade unions constitutes only a small part of the large working population of the country, and therefore it was necessary to introduce social insurance legislation which would give the same protection to all.

The platform of the President of the Republic, now in office, included a solemn undertaking to pass such a law during the first two years of his term; that promise has been carried out. When he took office as President, General Don Manuel Avila Camacho raised to the rank of a Secretaryship of State what had previously been the Department of Labour, and entrusted to this federal agency, as its chief task, the preparation of a complete social insurance measure. A

large committee of technicians and specialists devoted themselves to this task, taking as the basis previous projects and the experience of other countries, and profiting by the assistance of Mr. Shoenbaum, the distinguished actuarial expert. When the bill was drafted, the President sent it to the Congress which approved it; and it came into force at the beginning of the present year.

The main features of our law, which is already known throughout the American Continent, are as follows. It will eventually cover the risks of industrial accidents and occupational diseases; sickness and maternity; invalidity, old age, unemployment and death. It is a national public service affecting every aspect of the worker's life, and is compulsory in its application, though agricultural workers and public servants are, for the time being excluded.

In order to administer the insurance system, the Mexican Social Insurance Institution was established, a body corporate with decentralized services. The administrative agencies of the institution are the general meeting, the technical governing body and the director-general. The general meeting consists of 30 members, of whom 10 are appointed by the Federal Executive, 10 by organisations of employers, and 10 by organisations of workers. The technical governing body is the legal representative and administrator of the institution and consists of six members, in addition to the director-general who is chairman. These six members are appointed by the general meeting, and for this purpose each of the three groups of which the meeting is composed nominate two members. The director-general is appointed directly by the President of the Republic.

In order to finance the social-insurance services, provision is made for contributions from employers, workers and the State. The employer is solely liable for workmen's compensation. As regards the other branches of insurance, the employer is responsible for half the contributions, the workers and the State paying each one quarter. The contributions amount to 3 percent of wages from the employer and 1½ percent from workers and the State.

The technical governing body was appointed at the beginning of the year and the honour of being director-general fell to me. The last few months have been occupied in making preliminary studies and preparing to apply them in the different branches of insurance. A Presidential Decree has just been issued, ordering all employers and workers in the Federal District of the Mexican Republic to be registered; in this area there are about 300,000 insurable workers and 15,000 employers, that is to say, nearly one-third of the totals for the country. The registration, which is proceeding methodically, will have been completed in six months and arrangements have been made to collect all the data required concerning every worker and employer, including information on the size of the family, provisions of collective agreements, etc. Every worker will have his own file, his personal history card, and his individual account. In these circumstances, it has been necessary to fit out an institution of sufficient size to contain the equipment, accounting machinery and documents required for this number of insured persons. The registration begins on the 12th of July. Much advance propaganda has already been issued; whole pages have been published in the papers on the advantages of social insurance and giving instructions for the procedure to be followed in order to make the work of registration as perfect as possible; all the radio stations are broadcasting propaganda and will continue to do so as long as is necessary.

At the end of this year it will be decided which branches of insurance are to be applied thenceforth, and in this connection the first problem is the efficient organisation of medical services for workers and their families. The institution is fully occupied with these questions at present, and enjoys the strong support of the President of the Republic, who is anxious to see established in Mexico, as soon as possible, the entire social-insurance programme, so that we may be ready to deal with the post-war problems and have available the machinery and experience which will help to maintain a stable peace among the peoples on the basis of the well-being of all mankind.

The CHAIRMAN. We shall now have the pleasure of hearing from Mr. Sandoval, who is the Chief Technical Adviser of the Ministry of Labour of Cuba.

MR. SANDOVAL. In the first place I should like to express the satisfaction of the Government of Cuba at participating, thanks to the invitation of the International Labour Office, in a meeting of the most distinguished experts on social insurance and security. For myself there is a personal satisfaction to be working once again with those experts who took part in the First Conference of Santiago and with the Assistant Director of the Office, Mr. Stein.

As regards the first part of the Plan of Discussion, I will be very short. I do not wish to refer to any of the branches of social insurance in Cuba, nor even

to its most important branch, maternity insurance, which is considered a model both for the benefits in cash and in kind that it grants and for their duration, nor would I even mention the new benefits which have been provided for port workers or the war insurance for seamen, which is outside our industrial accident legislation. I desire only to emphasise our proposals for the future, since I believe with our President that social security is a dynamic movement. Nothing expresses more clearly and definitely what Cuba proposes to do than the nine points contained in Decree 1099, signed by the President of the Republic and the Minister of Labour.

(1) The right to work usefully and creatively through the productive years;

(2) The right to a fair remuneration, adequate to cover the necessities of life in exchange for work, ideas, and other socially valuable services;

(3) The right to adequate food, clothing, shelter, and medical care;

(4) The right to security, with freedom from the fear of old age, want, dependency, sickness, unemployment, and accident;

(5) The right to live in a system of free enterprise, free from compulsory labour, irresponsible private power and arbitrary public authority;

(6) The right to come and go, to speak or be silent, free from the spyings of a secret political police;

(7) The right to equality before the law, with equal access to justice in fact;

(8) The right to education for work, citizenship, growth and personal happiness;

(9) The right to rest, recreation, and the opportunity to enjoy life by taking part in an advancing civilization.

The Government of Cuba hopes to put into operation these principles as contained in the so-called "Batista Plan," giving effect to the conclusions which will be reached by this meeting. I make this statement in order that all those present may understand why we are taking part in this discussion and the importance which we attach to its decisions.

The CHAIRMAN. We shall now have the pleasure of listening to Mr. Lopez Arteta, Chairman of the National Insurance Fund of Ecuador.

Mr. LOPEZ ARTETA. At the outset I wish to express my cordial acknowledgment to the International Labour Office for having included my name in the list of those invited to take part in this meeting of social security experts. The honour which has been shown to me as one of the enthusiastic promoters of social insurance in my country, Ecuador, and as president of the social insurance institution will redound to the profit of my organization if I can bring back from here what I have learnt from my distinguished colleagues and their great experience in this field. In particular, we all want to have an opportunity to know the true significance of the Beveridge plan on social security—which has aroused so much interest throughout the world—from the lips of its author, the eminent Master of University College, Oxford.

As in this first stage of our labours we are reviewing the scheme of social insurance in the countries here represented, I will give a very short account of what is at present in operation in Ecuador.

The first legislation establishing a general scheme of compulsory insurance was passed in 1935. Between 1928 and 1935 the only institution which existed was the pension fund for public officials and bank staffs, which was on the same lines as those that, from the beginning of this century, grew up in a number of American countries; that is, a contributory scheme granting benefits which are very high in relation to its revenue and recognising services rendered prior to the introduction of the scheme. No provision for sickness benefits was made under that scheme. Nevertheless it served as a basis for drafting a genuine scheme of social insurance applying to the whole working population. Such a generalised scheme is in force today, though in the existing legislation no provision was made for covering the sickness risk of public officials and bank staffs.

After seven years of operation the law of 1935 was revised and replaced by a law of July 1942, which was drafted with the help of an actuary recommended by the International Labour Office, whose efficient service not only to my country but to several others should be fully recognised.

It is worth mentioning a statement in the preface to the law of 1942 to the effect that social security is one of the fundamental preoccupations of the modern world, since the demand for social security and well-being, which, as the Prime Minister of Canada recently said, are the bases for a true era of freedom, is arising among all men and all countries.

Under the new law the insurance retains its wide scope of application, which will extend eventually to all workers. However, for administrative reasons, agricultural workers and domestic servants will not be brought in until later.

The risks covered are: sickness, maternity, invalidity, old age and death. Industrial accidents are also covered by means of premiums paid by the employers only.

As regards the rates of benefits and qualifying conditions, the institution aims at bringing these provisions into conformity with the classic pattern recommended by the International Labour Conference and with the exigencies of complete actuarial solvency. The regulations for the application of the new law are now ready and will certainly be applied from the beginning of next year.

The scheme is financed on the tripartite basis, that is to say, by contributions from employers, workers, and the State.

Thus Ecuador is very much interested in this Consultation of experts on the future of social security as outlined in the Plan of Discussion drawn up by the Office. We are looking forward very much to hear what Sir William Beveridge has to tell us about his own plan.

It remains for me to add that I shall work enthusiastically with my distinguished colleagues and bring to them the small contribution of my experience.

The CHAIRMAN. I think we have now all earned the right to adjourn.

The meeting rose at 5:55 p. m.

SECOND SITTING, SATURDAY, 10 JULY (MORNING)

The meeting opened at 10:35 a. m. Mr. Ian Mackenzie was in the chair.

The CHAIRMAN. We are going to finish the general discussion this morning. As soon as Mr. Altmeyer comes, we will ask him to speak, and Sir William Beveridge, who is leaving tonight, has very kindly agreed to summarize certain observations with reference to the Agenda in general. In the meantime I will ask Dr. Heagerty, who has prepared for us a very comprehensive report on national health insurance in Canada, to address us briefly.

Dr. HEAGERTY. Mr. Chairman and gentlemen: About two years ago, Mr. Mackenzie issued instructions to his Department to discuss the subject of post-war public health and medical care at the meeting of the Dominion Council of Health in June 1941. I was instructed to prepare the material for that meeting and to present it. It was the intention of Mr. Mackenzie to produce for Canada a new public health and health insurance plan to cover the entire country. The members of the Dominion Council of Health are the Chief Medical Officer—the Public Health Officer—of each of the Provinces, nine in all, and a number of lay persons representing labour and agriculture, as well as the women's organisations. We invited to that meeting representatives of the medical profession and of voluntary organisations throughout the whole country. The presentation respecting public health and medical care was very enthusiastically received. The upshot of the matter was that we embarked upon the preparation of a comprehensive public health and medical care plan for the entire country.

The Dominion has no jurisdiction whatsoever in respect of public health and of medical care. Both public health and medical care are autonomous in the Provinces. The Dominion may help by financial grants, by providing specialist and other services which may be utilised by the Provinces. It was, therefore, necessary to discuss the whole proposal with the Provincial Ministers of Health. After we had proceeded a certain distance in our studies, it was thought advisable to establish an advisory committee. The committee was made up of officials of the Civil Service of Canada, each of whom had a particular contribution to make. One, for example, dealt with vital statistics, others with finance, labour, agriculture, and so on. After we had formed that committee, I thought it would be advisable to call into consultation representatives of all those professions which might be affected by health insurance, such, for example, as the medical, dental, nursing, pharmaceutical, and hospital professions. All of these groups formed committees. Labour, agriculture, industry, women's organisations, and so on were also invited to form committees.

As a result of all our consultations and deliberations, we have drawn up a Health Bill. It is not a Health Insurance Bill alone; it provides medical care also, because we have felt in Canada that it is absolutely essential that we should link up preventive medicine with treatment. Treatment alone in European countries has not accomplished all that public health officials in those countries desired, and we feel that it is fruitless to go on expending money for treatment, particularly when so many diseases and illnesses are preventable. We have an

anomalous situation in this country; the death rate from tuberculosis is very low in Ontario—25 per 100,000—while in the Province of Quebec it is 80 per 100,000. That is due largely to the difference in the amount of money expended on medical care in the two provinces. We have a great deal of mental illness in Canada. We propose to provide free treatment for everybody suffering from tuberculosis or mental illnesses.

After we had prepared our plan in detail, the next step was, with the assistance and approval of Mr. Mackenzie, to approach the Cabinet. I had the honour of presenting the subject to the Cabinet, and a special committee on social security was appointed, which is now considering our Health Insurance plan.

In addition to health insurance we have drawn up a physical fitness plan, because we find too many physical defects in all communities in Canada, both urban and rural. Studies have indicated that in the rural areas of Canada, 70 per cent of the young people suffer from physical defects. We feel that with the physical fitness plan throughout the country—not calisthenics but the organisation of sport and everything related to it—we can help to improve the health of the people of the entire country. Therefore you see that our plan is one of prevention, as well as treatment, and the creation of positive health.

The CHAIRMAN. I have now great pleasure in introducing to you Mr. Altmeyer, who was unable to be with us yesterday through no fault of his own. He is Chairman of the Social Security Board of the United States, and I am sure we shall all be delighted to hear from him. We all know the wonderful work he has already carried out in the great republic beside us. It is with the utmost pleasure that I introduce Mr. Altmeyer to this meeting, and I want to inform him that during his absence yesterday he was appointed Joint Chairman of this Consultation, and when the Chairman is called away, he will have to preside over the meeting.

Mr. ALTMAYER. I am very apologetic for not being here yesterday, but the weatherman does not realise the importance of social security as we do, and therefore I was unable to get off the ground in Washington in time to make my New York connection. I think there are a great many who believe that bureaucrats never have their feet on the ground, but I have evidence to the contrary.

We are indebted to the ILO for calling this meeting of social security administrators and others interested in the promotion of social security throughout the world. I think we in social security realise probably more than anyone else that in the midst of war we are really very much in the midst of peace, and that the things which we do today, or do not do today, will determine the kind of world that we have after the war is over. We realise that social security calls for thoughtful planning, careful preparation of administrative machinery, and the establishment of financial arrangements long before the actual benefits are payable, and that is something that persons not in social security do not seem to realise.

As Sir William has pointed out, every nation can develop its social security system alone, and without regard to what is done or not done in other nations, but I am sure he would agree that what is done in the field of social security in any one country does profoundly influence what is done or is not done in other countries. Certainly his great work on social security is having a profound influence in our country, and probably in yours also. The world, after all, is a pretty small place—a little ball of mud on which we insects try to maintain our precarious hold—and fortunately war has not placed an embargo on ideas. We still are able to learn from other countries, despite the ravages and the obstacles of war. Moreover, what is done by way of social security in every country, besides influencing the intellectual ferment and the moral fervour of other countries, does make for better international relations in promoting economic well-being, political stability, and international trade. We all believe that social security is an embodiment of the concept that actuates the democracies, that is, a profound belief in the worth and the dignity of the common man and in his perfectability. In that regard we go back to Rousseau, and do believe that the common man is a king in his own right.

I want to say a few words about the progress of social security in the United States. There has been some confusion in the United States, and, I have no doubt, even greater confusion outside of the United States, as to certain developments that have taken place in the last few months.

All of you have heard of the report of the National Resources Planning Board, a very monumental report, weighing, I think Sir William contends, 6½ lbs. As Sir William has pointed out very aptly, it corresponds to the report of the Webbs in England in the early 1900's on the condition of the poor. It establishes beyond

a doubt that we in the United States, in spite of our vaunted prosperity and high level of well-being, have a continuing problem of poverty in the midst of plenty. Although this report contains some general recommendations concerning social security, it was not in any way intended by the authors to be the prototype of the Beveridge Report in the United States. However, many newspapers seized upon this as America's answer to the Beveridge Report. Unfortunately that led to criticism of a report which in its own right has made a great contribution to social security. Many who examined it said: "This is not like the Beveridge Report; it does not give the details of the cost, it does not say what sort of machinery will be set up or what benefit will be paid; it does not show the inter-relationship of the various types of benefit; this is just a vague dream of a better world." Such criticisms were due to a misinterpretation of the nature of the report.

The Social Security Board has spent a great deal of its time studying ways and means of perfecting the present system of social security, as it is charged with doing under its basic law. It has described in its various annual reports what could be done to improve and extend the present system; in its last annual report, there are ten or twelve pages devoted to ways and means of recommended changes. However, the Social Security Board has not yet issued for the consideration of the public and of Congress a detailed plan for the extension of social security in America. It is prepared to do so at any time, and when it does make a report, it will follow the method of presentation that Sir William has followed so effectively; that is to say, it will spend about 50 or 60 pages in presenting the essentials. Keyed to these 50 or 60 pages paragraph by paragraph, will be supporting data and detailed recommendations as to what alternatives should be considered in implementing those general recommendations. We have not submitted our detailed report to Congress at the present time, because, as you may have read, our Congress has been busy with a great many things, and we do not consider that it is propitious to attempt to capture its attention, if not its support, for social security at this particular time.

Sir William's visit to our country, I believe, has done a great deal to stimulate interest in more immediate consideration of social security; certainly it has done a great deal to inform and clarify and stimulate the thinking of our people concerning social security. I only wish that we could keep him in our country forever.

At any rate we are in a position to move forward when a conjuncture of events develops making it propitious for the consideration of social security. I want to say just a few words about the thinking of the Social Security Board as to how we should move forward. We believe that in the field of contributory social insurance, there should be a single unified comprehensive system administered by the Federal Government, covering all the major hazards of old age, permanent disability, temporary disability and unemployment and including medical care. We believe that there should be a comprehensive system of public assistance partially financed by the Federal Government, but administered by the States. As in Canada, there will undoubtedly be a great deal of discussion as to whether the system of contributory social insurance should be administered entirely by the Federal Government or by the States or by the two through some joint arrangement. We have at the present time, as you know, a system of unemployment insurance which is financed by the Federal Government but administered by the States; that system has created a pattern of thinking which does not enable us to consider the question of contributory social insurance entirely on its merits. We have a Federal system of old age and survivors' insurance which also contributes to our pattern of thinking, but the fact that the States are actually administering unemployment insurance at the present time has created a situation where any proposed change will cause a great deal of controversy.

I am sorry that I have not been able to speak in Catellano. All I can say is "Saludos, amigos!"

THE CHAIRMAN. We shall now have the pleasure of hearing from Mr. Leonard Marsh, the research adviser to the Advisory Committee on Reconstruction in Canada.

MR. MARSH. The subject to which the agenda addresses itself is essentially the problem of how to take existing legislation and weld it into a unified, broadened, and rationalised scheme, and that, naturally, is the subject on which I feel that my contribution should come. But there are two things, one of which might be useful at this stage, and one which I am most anxious to say now.

I want to take this golden opportunity to express my personal debt to the International Labour Office. The I. L. O. is an organisation which stands ready to

give aid and comfort to any individual country, and it certainly did that in the preparation of the report with which I am associated. I am conscious, too, that I. L. O. is always particularly aware of the international implications of any national task, and that again is something for which I have been very grateful because it has been possible to keep in mind at least some of the most important international experiences in the various fields with which my report deals.

The main point which it might be most useful to mention in a very summary fashion at this stage is the essential details of existing Canadian legislation.

In Canada, the only basis of a comprehensive approach to social security is in our unemployment insurance legislation. In that we have been very fortunate. It is essentially a national scheme, and it is fairly comprehensive, although it is still capable of extension. It includes, of course, the network of the employment exchanges. The Canadian Unemployment Insurance Act embodies a good many up-to-date features, which, when we are considering the future, might profitably be retained. In many ways the advisers of the Government—and I know that I. L. O. experts were among them—built better than they know. For the other risks, we have some interesting differences to consider in a comprehensive organisation. We have workmen's compensation in eight of our nine provinces, on a model which is usually regarded as a good one, but it is entirely provincial; the Dominion Government has no part whatsoever in it. The general approach has been to say that our workmen's compensation is reasonably satisfactory legislation. The question of extension comes up, but there is no question of any fundamental remodelling.

There is, also, a fairly large field of social security provision which is completely non-contributory and which is quite involved in the administrative sense. Old-age pensions are the outstanding example; they have rather peculiar features. The old-age pension legislation is national in form, but is administered fundamentally by the Provinces. The regulations are laid down by the Dominion, and the Dominion now finances about 75 percent of the cost. If we are to achieve a unified contributory system those old-age pensions must be placed on a contributory basis; and the whole question of administration is at issue. The important point about the old-age pensions is that they are at least embodied in a national framework, and are not, like other legislation I could mention, purely provincial. There is only one other piece of legislation which is a small beginning of social security. It is the most rudimentary provision for widows and orphans, the system which in Canada is known as the mothers' allowance provision. It is really little more than a special elaboration of relief, confined to certain special categories, but subject to proof of need. These provisions are entirely provincial, in no way connected in a national system; they are not indeed applied throughout the country, because two provinces do not have that legislation in force. This small piece of social assistance provision is a little more systematic than others which have to be brought in but it calls for a good deal of thought before it can be properly rationalised. The framework of unemployment relief—which also is provincial, or, technically speaking, municipal in form—is a part of the problem of very real significance for the post-war period.

That is all I want to say now. I merely wanted to make this one point that in Canada the approach to a comprehensive social-insurance organisation for income maintenance does raise some very interesting and very difficult features, even apart from the question of Dominion-Provincial jurisdiction. It is a question of how to bring together pieces of legislation which are at the moment on different financial bases, some on an insurance and some on an assistance basis. One matter with a rather special angle to it, the problem of agricultural areas, I should like to develop, if there is more opportunity later on.

The CHAIRMAN. That really concludes the introductory portion of the discussion, but I want everyone to understand that those who have not yet taken their part will be expected to take their part when we come to discuss the agenda.

Mr. Stein will now outline the procedure which it is proposed to follow from now on, and after that Sir William Beveridge will outline to us here some of the highlights of the agenda. That may be his last contribution to the discussion before he departs tonight. But we certainly appreciate very much his presence here to help us.

Mr. STEIN. We have not lost a minute in procedure, and we will not lose time in discussing procedure now. I would just point out that what the I. L. O. hopes to obtain from this Consultation are the elements for the drafting of an international charter of social security to be submitted in due course to an international conference. This small booklet, SSC 2, was printed on 26 June 1943.

On 12 June 1943 Chairman Altmeyer delivered an address¹ at the American Labor Conference on International Affairs in New York. I asked and got his permission to distribute this address in English and Spanish. May I refer you to the passage on page 5, entitled "Next Steps." Chairman Altmeyer said:

"International cooperation in developing social security could be achieved most effectively through agreements developed and consummated in accordance with well established methods. The first step toward such multilateral conventions would necessarily be an international conference whose primary task might be the formulation of what in essence would be an International Charter of Social Security. In such an undertaking it would, of course, be necessary to take account of wide differences in levels of economic and social development among nations. Such a charter might therefore take form in a declaration of goals to be achieved and of principles to be observed, rather than in a code of specific provisions. Such a charter should also lay a basis for continuing co-operation among the signatory nations."

I will now try an experiment to telescope SSC 2 and Chairman Altmeyer's statement. The job outlined by Chairman Altmeyer should consist essentially, as he said, of

1. Goals to be achieved.
2. Principles to be observed.
3. Enumeration of some of the specific provisions of major interest to be maintained; and
4. Ideas to be the object of cooperation among nations.

It is suggested by the I. L. O. that Part I of the document "Plan of Discussion" supplies the material for the discussion of the goals to be achieved; and, that the series of objectives in Parts II, III, and IV supply the material for the discussion of the principles to be observed. The experts may wish to recommend some specific provisions for special consideration with a view to their incorporation in the charter; such specific provisions might be selected from sections in Parts II, III, and IV which deal with the methods.

In the few days that we have for this Consultation it will not be practicable actually to draft a charter. A disproportionate amount of time would be consumed with merely linguistic and verbal questions, whereas it would seem that the time of the experts would be more effectively employed in stating the ideas and techniques which deserve to find a place in the charter.

I will say just a word about the timing. I think the timing was very good. We caught Sir William on the eve of his departure for England and we had a perfect timing for the joint chiefs of staff. The invasion started this morning. We must be ready from today on to begin to produce the elements of an international charter on social security.

Mr. REBAGLIATI. I think we ought to make a declaration which gives expression to the significance of this meeting, to our faith and hopes: I therefore venture to suggest a declaration, which is informal just as the meeting itself is informal.

Mr. STEIN. Dr. Rebagliati's draft resolution will be circulated in both languages, so that you will see the wording.

The CHAIRMAN. We are very grateful to Mr. Rebagliati for submitting these principles for the thorough consideration which they will receive at this Consultation. I am to be the victim immediately of a press conference, so I will ask Mr. Altmeyer to take the chair.

(Mr. Altmeyer took the Chair.)

The CHAIRMAN. We shall now hear from Sir William Beveridge—his swan song, if I may call it so, to the Americas.

Sir WILLIAM BEVERIDGE. I am delighted to take this opportunity of speaking, because it is the last occasion when I am likely to be able to speak at any length. I had hoped to be able to stay for the whole of this conference—though I ought to have been in Britain long ago—but I have just heard that I must be back in New York tomorrow, in order to be sure of getting the transport which will take me home. Therefore if you will excuse me, I will say all I feel it is really important that I should say, upon a number of different points. But before I come to those points, may I say that there is going about the room a copy of my report which I desire to have signed by all those who are present here so that I may take away the memory of the new friends I hope I have made here today. By signing that document you do not commit yourselves to anything in it; you

¹ For full text, see Appendix II in Part F.

are as free as air. I may say that I have in Great Britain another copy of that report signed by all of the officials, also certifying that they are not responsible for anything that I have said.

I should like to speak about six points: first, the place of unemployment insurance in social security; second, the making of security comprehensive of all persons; third, the adequacy of benefit by insurance; fourth, the question of the unification of administration; fifth, child maintenance; sixth, and very briefly, medical services. Those are the six highlights on which I should like to have said something to you before I go.

Now, as to unemployment insurance, it is a surprise to me, coming from Britain where unemployment has been so large a part of social insurance, to find in your paragraph 201, describing the classic pattern of social insurance, that that classic pattern does not include unemployment insurance.

Dr. STEIN. 1930 is the last date taken into consideration.

Sir WILLIAM BEVERIDGE. Yes, you may say that in 1930 the classic pattern did not include unemployment insurance. Coming to a later date, 1942, when the International Labour Office made a survey, for the benefit of my committee, of the social insurance schemes of all countries, it was a surprise to find that of the thirty-one countries which they described to us, only nine had compulsory state unemployment insurance. Of those nine, five belonged to the British Commonwealth and one was the United States of America. The only three non-English-speaking nations which had compulsory unemployment insurance were Bulgaria, Italy, and Poland, and it is, I think, a little doubtful what may emerge in those countries after this war. It is the case, too, as you know, that none of the South Americas have insurance against unemployment; that, to me, is a rather striking fact. If a country is industrialised, if its industry is liable to change, it appears to us in Britain that it is self-evident that it must have unemployment insurance if, in the terms of paragraphs 202 to 203, it desires to cover all contingencies. Agriculture, particularly peasant agriculture, is not very good ground for unemployment insurance. Agriculture generally is not perhaps, very good ground for it, although we in Britain do apply it to our agriculture, which is rather similar to our industry in being carried on mainly by persons hired by employers and not by a peasantry. Learning as I have been able to learn a good deal about your countries since I came to this conference, I quite understand why you should not have unemployment insurance in your countries, in so far as you are to a large extent agricultural.

While I want to stress the fact that to us in Great Britain—and I think to all the industrialised British countries—unemployment insurance is an integral part of social insurance, I should also like to stress the fact that the effect of my plan is to diminish the relative importance of unemployment insurance. If you look some time at page 214 of my report, which sets out the expenditures under various heads, you will see that just before this war nearly half of the total social insurance expenditure in cash benefits in Britain was either unemployment insurance or the related unemployment assistance. Under my plan, the provisions for unemployment altogether represent less than one-sixth, instead of nearly one-half, of the total expenditure on cash benefits, because I assume that unemployment insurance, while it is necessary for short periods of unemployment, is not the right treatment for prolonged unemployment. Indeed, there is no remedy for prolonged unemployment and mass unemployment except to abolish it, just as there is no remedy for war except to abolish it. The effect of my report is to keep unemployment insurance but to make it much less important, and by inference to stress the necessity of other methods of dealing with loss of income while a person can still work. For the industrial people those other methods will obviously be the maintaining of employment, finding a demand for industrial products; for agriculture, the method, I imagine, is going to be some stabilisation of the prices and production of agricultural products. That is the kind of thing that was discussed at the Hot Springs Conference recently. Now that is what I want to say about unemployment insurance: From the British point of view it is an essential part of social insurance, but it should be one of diminishing importance.

Now I come to the second point. When I speak of making insurance comprehensive of all persons, that is in accord with what is said in paragraph 203 (a) of this plan of discussion, concerning the transformation of the classic pattern of insurance and assistance services into national income maintenance services, transcending class limitations.

My plan, as you know, turns the British social insurance limited to employees into citizen insurance including all citizens, and the fact that it does so is, I

believe, one of the main psychological reasons for the strong appeal that that report has made to the people of Britain. It has emphasized the unity of the nation, and a nation, in war, desires its unity and solidarity emphasised. If you are familiar with my report, you will know that I propose to abolish the existing exceptions for certain industries or occupations from pension insurance or unemployment insurance on the ground that other provision is made for them and to bring everybody in under one system. We have now an income limit; we do not insure nonmanual workers earning more than £420 a year. I propose to abolish that income limit and get everybody in, from the poorest to the richest, without class distinction. In all those plans of unifying and developing citizen participation in social insurance, I know that I am acting in entire accord with some of the deepest sentiments of the British people.

And finally I am proposing to abolish everything in the nature of merit rating or experience rating, that is any distinction between the contributions which people pay because they themselves face different risks of being sick or unemployed. Social insurance in Britain was born, as it were, in the surroundings of voluntary insurance, and in voluntary insurance you must adjust premiums to risks, because otherwise you will not get people to insure. We thought we had to do the same thing even in compulsory insurance, and therefore, we contemplated differential contributions in different industries for unemployment insurance. For sickness insurance we had a system of approved societies, which enabled people of good health to group themselves together and get better benefits for the same contribution. The striking thing in all the evidence that I have got from practically all types of mind—trade unions, the friendly societies, the National Council of Women, all the generalised bodies—is that in social insurance all citizens should stand in together and that no group should get better terms from the State because they themselves had a lower risk either of employment or of sickness. I do not say that that tendency of thought in Britain need apply anywhere else. However, it is most emphatically the feeling of the British people, and there is practically nobody in Britain, apart from the people who are interested in a particular society or form of insurance, who thinks that we should have social insurance except on the same terms for all citizens irrespective of their particular risks. It is part of the sense of unity of the people, and it is to that that my report owes its reception.

Of course, unity transcending all class distinctions does not mean that you can, in fact, treat all citizens in exactly the same way in social insurance. My scheme, while it is comprehensive and covers everybody, does not cover them all in the same way. You cannot, for instance, in my view, insure against unemployment people who do not live by employment. You cannot, in other words, insure an independent farmer or shopkeeper against being unemployed on a particular day because of bad weather or because no customers come in. You can only insure against unemployment the people who are working as employees. Therefore you have to have a classified scheme as well as a comprehensive scheme. As you know, I myself propose three classes of insurance: first all employees working under contract of service, without income limit and without exception, who are insured for everything—for sickness, invalidity, old age, accidents and unemployment; second, all gainfully occupied independent workers, the farmers, shopkeepers and so on, who are not insured for unemployment or for short sicknesses but are insured for disability, for pensions and so on; and third, the people who work at home, perhaps being paid nothing at all, what we call in Britain the domestic spinster, living at home, looking after her family, who has to be insured somehow for pensions, for funeral benefit, and for medical treatment. I know that Dr. Stein has made a suggestion that we might amalgamate our second and third classes and have only two classes. That is an interesting suggestion, which you will no doubt follow up. What is clear is that you must have some classification as the price of comprehensiveness, but the classification is not an economic classification.

Then I come to the third point; the adequacy of benefit by insurance. Adequacy of benefit means adequacy in amount and in time. Let me take first the question of adequacy in amount. That is implied in your paragraph 203, when you speak of a national income maintenance service. As you know, in Britain, I felt able to propose a single flat rate of benefit for all citizens, irrespective of their wage rates or of their earnings, based simply upon a calculation of the cost of essentials for subsistence—for rent, food, fuel, clothing, and so on. I am not suggesting that a flat benefit would be possible in other countries; in fact I am not sure that it is absolutely possible in Britain. We may find that it is desirable to make a distinction between places like London, where rents are

much higher than in the rest of the country, and other parts of the country. We may find a few minor distinctions desirable, but I am sure we shall not need in any way to gear our benefits to wages.

I am inclined to think that the United States and Canada, and probably many other countries, will find it desirable to gear their benefits in some way to wages. It is important to realise that if you gear your benefit rigidly to wages, unless you have a minimum benefit you do not abolish want. Another important point to realise is that you do not abolish want unless your benefit system includes liberal dependents' allowances, to take account of family responsibilities and give different rates of benefits to the single man, to the man with a wife who is not working for wages and is dependent on him, and to the man with children. I think one of the really important technical problems that has to be discussed in countries that are considering any revision of their social insurance is the part of dependants' allowances in social insurance. Without dependants' allowances you do not abolish want, except at the cost of giving benefits so high that their cost cannot be justified and would be an intolerable burden upon the finances of the community and the working population.

I shall come back to that question of dependants' allowances when I come to my fifth point of child maintenance; let me for the moment leave that and speak of this other question of adequacy of benefit in time. One of the exciting features of my proposal for Britain—one violently differentiating it from anything that I think is contemplated at the moment in the United States, or, probably, in most other countries—is the proposition to make benefits unlimited in time, lasting as long as the need lasts. My view on that is—I say mine because I am going to say in a moment what the Government has said about this—my view is, that you cannot abolish want unless you make benefits unlimited in time; that people want, not less, but more, if they have been sick for a long time, or unemployed for a long time. If unemployment or sickness goes on for a long time it may require different treatment from that for disability or short unemployment, but the essential difference should be in treatment and not just in cutting down the rate of benefit.

The philosophy underlying, in my mind, the idea of insurance benefit unlimited in time is the desire to abolish as completely as possible any kind of means test. Whenever the State says: "we will help so and so but if he has any money of his own we will give him less than we would give him otherwise," the State, by adopting that policy, is doing something to discourage thrift and destroy independence and freedom. Certainly one of the strongest feelings of the British people is against the means test and that is not, I believe, because they want to have everything for nothing: it is because they want to feel able to save without risk of losing what they have been able to save. Now, if you really want to abolish the means test, as we do in Britain, you have to make your benefit unlimited in time.

Now we come to the fourth highlight, and that is the unification of social insurance. That is dealt with in your paragraphs 333 and 334. As you know, I propose a complete unification of all social insurances including workmen's compensation and a coordination of the assistance services. Some assistance must continue: however perfect and comprehensive your social insurance scheme, there will be some people who will drop through its meshes, and under my proposals for pensions there will be a substantial amount of assistance for the next twenty years. But my proposition is that both insurance and assistance—social insurance covering industrial accidents, as well as all the other risks and a small and diminishing relic of assistance—should be administered by one and the same authority. I make that proposition concerning workmen's compensation because I think it is common ground in Britain, among everybody except the deeply interested parties, that the existing system of workmen's compensation is unsatisfactory. My feeling is that if we have to change it, we had better make it into a part of the comprehensive scheme for the risks which are set out in my report and not deal with it separately. However, I propose in regard to workmen's compensation to keep one distinctive element and gear the benefits for permanent disability due to an industrial accident to wages.

I do not think there is any doubt of the great advantage from the point of view of the citizen of having one administrative body to deal with. That does not mean that he will get his benefit in exactly the same way when he is sick as when he is unemployed, or when he is old. Unification of administration does not mean uniformity of treatment. Unity does not mean treating different things all in the same way. It means treating each thing according to the way in which it ought to be treated by a body which looks at the problem as a whole.

I come now to the fifth highlight, which I call child maintenance; that is dealt with in par. 315 of your outline. The fact that I should have proposed a system of children's allowances and that it should have been accepted, as it has been accepted by the Government and public opinion, is the most revolutionary thing in the whole of my report and its treatment. What I am proposing is an allowance for children both when the father is earning and when he is not earning; not merely a dependants' allowance added to benefit, but an allowance for children added to wages when the father is earning, the only difference being that I propose to pay nothing for the first child when the father is earning, and to pay for all the children when the father is not earning. For some time the proposal for children's allowances was opposed, particularly by the trade unions, but it has now been accepted by everybody, by the trade unions and by the Government—not the exact amount I propose, but the principle, and that is the one thing that matters. That decision of the British people to allocate a definite part of their income to communal provision for children is a very striking departure, indeed.

I do not know how other countries will think of this problem. It is easy for us, because we are a homogeneous people, not different races and colours, and with no very different standards of living. Therefore one child is to us as good as another, and there is no question of assisting one race against another or anything of that sort.

There are many reasons for that proposal, but the principal reason is that, unless we have children's allowances while the father is earning as well as while he is not earning, we cannot make certain of abolishing want. We can make certain that minimum wages are sufficient always for a man and wife and one child, and perhaps even for two children, but when you get to three, four, five, or six children you are bound to have some families in want and some children in want. Our figures show that the want among children is a very large and disproportionate part of our total want. Since we have not got enough children anyhow in Britain, we think we ought to look well after those that we have.

A second reason for children's allowances when the father is earning is that they are necessary in order to keep the gap between wages and benefit large enough. If you have dependents' allowances added to benefit and not added to wages, then if the dependents allowances are really enough to abolish want and maintain the children, in an appreciable number of cases people can get more when they are sick or unemployed than when they are working; that is obviously an anti-social and thoroughly undesirable state of affairs.

I come now to the last point of all, the medical services. That is dealt with in your paragraph 203 where you mention, I think very rightly, the recognition of medical care services as of equal rank with maintenance services. The medical side of social insurance has been the weakest point of British social insurance hitherto, because the medical service was limited to the insured person; it did not cover the housewife, or the children. In addition, medical service was limited to general practitioner services, and did not cover hospitalisation or dentistry or any of the subsidiary services. That was the weak point of our medical services, and the weakest point in all our social insurance system. My proposal, as you know, is to make medical care about the strongest point in our social insurance system, by making sure that all citizens—employees, others of working age, whether gainfully occupied or not, housewives, children, and retired—will get whatever medical treatment they want to make them well again, without a charge at the time of treatment. In other words, that makes it part of the national minimum for every British citizen that he should be as well as science can make him.

I believe that medical care is one of the sides of social insurance which could be made most common to the whole world. For medical treatment, you do not have to classify people according to whether they are employees or independent workers or are not earning at all; all need treatment, and they need substantially the same treatment according to their disease. You do not have to classify them according to their standard of living; they need treatment according to the state of their disease. One of the things that I should like to see done for all the world would be to make it a common birthright for all free human beings that they should be made as well as science can make them. That could be applied to every citizen of the United States, every citizen of your countries, as you are, I think, intending to apply it, by removing for all any economic barrier between themselves and medical treatment.

I realise that there are, unsolved in my report, difficult and very important questions as to how one should organise the medical services. When you have said that the patient is not to pay, the question still remains: how is the doctor to be paid, and who is to pay him, and how are doctors to be organised? These questions are not settled in my report; I can only give you my own personal belief that the whole stream of thought throughout the world will be in favour of making the medical profession a profession and not a trade in any sense, in fact a vocation and not even a profession like the lawyer's profession. I belong personally to a vocation, a profession in which at one time lecturers were paid by the number of people who attended their lectures. We have given that up. We are all paid a certain salary to do our best or worst, and because university teaching is a vocation and not a trade, I believe that is the best way to pay us. Of course, if you are paid by the number of people who come to your lectures, you may increase your income not by the excellence of your teaching but by your manner in teaching, just as a doctor may increase his income by his bedside manner. I believe myself that one of the effects of the war in Britain will be to strengthen very much the movement towards something very like a State medical service. I say that without any kind of authority, and without knowing in the least whether I am right in that, but I believe that the move is going to be in the direction of making medical healing a great vocation in Britain, and I should like to see it a great vocation all over the world.

Now, those are my six points and I will just try to run over them and tell you in a moment where, so far as I know, they stand as regards acceptance by the Government.

About unemployment insurance, I propose no significant change; presumably the continuance of unemployment insurance has been accepted by our Government, and also the desire to provide for unemployment by insurance rather than by assistance.

On the second point of comprehension of persons, it was definitely stated by Sir John Anderson in the House of Commons that the British Government accepted the making of insurance comprehensive of all persons. Incidentally he also accepted the abolition of approved societies, which means the abolition of experience rating, or adjusting of premiums to risk in sickness insurance. I do not know whether they would have accepted the abolition of an income limit or not; that is a minor point. In general the Government has said that it accepts comprehensive social insurance, passing from an employee to a citizen scheme.

Upon the question of adequacy of benefit, they have accepted in general my scales of benefit, but have not accepted making those full scales unlimited in time. That is, I should say, a partial acceptance of the principle of adequacy. Knowing the kind of political pressure there always is in favour of pushing up rates of benefit, I suspect that a partial acceptance will be turned into a full acceptance before very long.

Unification has been accepted in principle. Sir John Anderson did not accept the incorporation of workmen's compensation in the social insurance plan but he did not reject it. You may remember that one of the things that Winston Churchill, as Prime Minister, emphasised in his broadcast of 21 March was the economy and advantage of unity and coordination in social insurance. There is no doubt that he himself is convinced about that, and as anything of which Mr. Churchill is firmly convinced is apt to get done in Britain, and even sometimes in other parts of the world such as North Africa, I suspect that a great deal of unification will result.

Child maintenance, as I have said, has been accepted by the Government and by public opinion; and the Government has accepted the aim of providing for all citizens a comprehensive medical service. They are still working on the details of such plans.

In conclusion, let me say how much I welcome Mr. Rebagliati's suggestion that we should do something now to hasten forward social security throughout the world by resolutions and expressions of opinion at this Conference. I hope that this Conference will be another milestone—I should like it to be a seven-league stone—towards the universalisation of social security. The great merit of social security is that it can be national in the sense that it can be different for different countries. You may have full regard to national differences of economic conditions, of political conditions, of ways of thought, of the things to which the people of each country attach importance. A plan of social security can be adopted by each country without jealousy and without interference with others, looking to other countries only in noble emulation and for purposes of study and of exchanging experience—but while social security can be national, I am

sure that it should be worldwide. It should be worldwide for the practical purpose of making easier migration between different countries so that people may move, if it is otherwise desirable for them to move, without being chained down by their own particular claims on their own particular national schemes. It should be worldwide because it is an admirable field for international co-operation, and as the nations after the war will have to cooperate so much, it is desirable to have as many fruitful and helpful fields of international cooperation as we can; and here in social security is one. And finally, it should be worldwide because it is, after all, one of the main and principal aims of the United Nations, of the objects for which they fight.

I am sure I am only saying what you all feel, when I say that making this occasion another step forward towards universalisation of social security will be a help to victory in the war and in the peace alike.

(The meeting rose at 12:45 p. m.)

PART C—CONSIDERATION OF THE PLAN OF DISCUSSION

THIRD SITTING, SATURDAY, 10 JULY (AFTERNOON)

The meeting opened at 3:10 p. m. Mr. Ian Mackenzie was in the Chair.

The CHAIRMAN. If there is anyone who has not yet spoken, we shall be very glad to hear from him now.

Mr. SILVERIO. I feel somewhat embarrassed to speak after hearing men of such prestige and reputation as Sir William Beveridge, Mr. Altmeyer and other distinguished persons present.

I hardly know what there is to say that has not already been said and that we do not know already. I would, however, like to mention what Cuba has done in the last few months to bring the country up to the standard of the times by adopting a programme which will mean a quite certain measure of improvement. I was very glad to hear Mr. Altmeyer speak of the establishment of sound and close financial cooperation among all the countries of the Americas and among individuals who live in each of these countries.

The CHAIRMAN. Is there any discussion on Part I of the Agenda?

Mr. WATSON. There are one or two expressions in Part I to which I should like to draw attention.

In paragraph 103² there is a reference which might suggest that children's allowances are social insurance. I think that that is not correct. I do not think children's allowances come under the heading of social insurance. They are social benefits it is true, but I think we should be careful in the language that we use, as Sir William suggested yesterday.

Then in paragraph 112, we have the phrase "national insurance against child nutrition."

Mr. STEIN. That is a quotation.

Mr. WATSON. It is a quotation, but the language, I think, is not justifiable. We must see that there is proper child nutrition, but it is not an insurance matter; other technique ought to be applied.

Then in paragraph 117, there is a sentence which reads "No matter how the budget is financed, by contributions or taxes, everyone must be made aware of the cost of social security and enabled to judge its worth." As far as social insurance is concerned, I feel most definitely that it must be financed nearly altogether by contributions; in fact it ought to be all by contributions. Taxes have their place in social security, but not really in social insurance.

Then again, at the end of paragraph 120, there is a slip, to some extent, I think. The sentence reads "It [the danger of abuse] is appreciable, however, in the case of medical care services, and substantial in the case of maintenance services, and it is in these fields therefore, that the insurance method is indicated." The insurance method will not necessarily, in itself, avoid abuses. I think the insurance method is desirable where insurance technique will enable us to achieve the desired end. But you may have abuses under insurance, whether it is private insurance or social insurance.

The CHAIRMAN. Is there any further discussion on Part I?

As there is no further discussion, we shall proceed to Part II.

² See Part A of this record for the text of Part I of the Plan of Discussion.

II. EMERGENCE OF A NEW CONCEPTION

CLASSIC PATTERN

201. Development, 1880-1930, of classic pattern of social insurance supplemented by unco-ordinated, categorical and (or) general, assistance services. Elements of classic pattern:

(a) General scheme:

- Applying to employed class (wage limit);
- Covering sickness, maternity, invalidity, old age, death;
- Providing cash benefits usually proportional to wages and—pensions—to period of insurance; providing medical care for insured and often for family;
- Financed by joint contributions proportionate to wages and State subsidy;

Administered by self-governing institutions.

(b) Separate coverage of occupational risks by compulsory accident insurance at sole cost of employer, providing higher benefits.

(c) Special pension schemes for public servants, non-manual workers, miners, etc., providing higher benefits.

Pattern internationally approved in Social Insurance Conventions in 1925-33.

Characteristics of classic pattern:

- Physical causes of destitution prevented;
- Health of workers and families improved;
- Insured person, as contributor and beneficiary, interested in economy and efficacy of administration; as contributor, entitled to share therein; self-respect and incentive to private thrift preserved;
- Due payment of benefits guaranteed by maintenance of separate fund and observance of actuarial principles.

OBJECTIVE

202. Essence of new conception. Inspires social security planning since 1938, involving:

- (a) Decent minimum of subsistence at least, to be secured to all who work according to ability and opportunity;
- (b) Medical care to be generally available;
- (c) Employment services for placing and retraining workers.

METHODS

203. Implications of new conception:

(a) Transformation of classic pattern of insurance and assistance services into national maintenance service:

- Transcending class limitations;
- Providing benefits to relieve want in all major contingencies;

(b) Recognition of medical care services as of equal rank with maintenance services:

- Reorganized on rational lines;
- Coordinated with other health services;

(c) Extension of functions of employment services.

(d) Parallel progress in:

- Economic and financial organisation;
- Minimum wage regulation;
- Public health services;
- Housing;
- Vocational training.

Difficulties of realising new conception:

- (a) Scanty experience outside classic pattern;
- (b) Need for big effort of financial organisation;
- (c) Need to conciliate vested interests;
- (d) Need for understanding and cooperation of public.

Dr. HEAGERTY. In paragraphs 202 (b) and 203 (b) I find the words "medical care" and "medical care services." Now our conception of health insurance today comprises public health—preventive medicine—as well as medical care, and I do not find any reference to that in those sections. It might be as well to include a reference to public health.

Mr. PERBOTT. I would like to say a word about the subject about which Dr. Heagerty was talking, of making it perfectly clear that public health services must be coordinated with the curative services. Although it is true that later on in Part IV it is made clear that preventive health services must be coordinated with curative medical services, nevertheless, I think that since "public health" is put in in paragraph (d) of 203, along with such things as minimum wage regulation and housing, the sense of that to me is that public health is something set apart from these medical services, so I wonder whether it would not be better to say "public health and medical services" wherever possible in Part II.

Mr. RAGGI. I, too, would like to mention an aspect of paragraph 202, which is a most essential and important one. I refer to "decent minimum of subsistence." I believe that it is important to know whether we consider that the principle of subsistence for the family as well as for the worker himself should be maintained as an objective of the new pattern of social security.

Mr. STEIN. I am afraid that Part II is exceedingly difficult to discuss separate from Parts III and IV. May I point out to Dr. Heagerty that public health services are expressly included under 203 (d), but there is, of course, a difference between the medical care services and the public health services. This is discussed more fully in Part IV. Part II gives in a certain sense the philosophy of the whole movement. Do you believe that it is wise for the Office to try, in two pages, to present a résumé of the new concept?

Now I come to Mr. Raggi's comment on 202 (a). Of course family responsibilities are discussed in detail in Part III, but we did not think that we could say that the wages and benefits must, in all cases, cover family responsibilities. That is a question for you to tell us—whether dependants' allowances are so important that they are a major objective, or whether they are to be set out in Part III among the provisions implementing the objective.

Mr. RAGGI. May I propose a way to settle this question? Recently, at the Food Conference they discussed the problem of the cost of living, and considered fixing an average cost of living. I think it would be interesting to look at the problem from the point of view of the average, because we cannot deal with it for each of the different sizes of family, which may consist of 1, 2, 3, or more individuals. I wonder whether it would not be better to amend this paragraph so that it would not seem to apply exclusively to the worker himself.

Mr. REBAGLIATI. In paragraph 203 (d), I notice that it says "parallel progress in: economic and financial organisation; minimum wage regulations; public health services; housing; vocational training."

302. Insurance service implying:

I suggest the addition of "organisation of workers' trade unions." In some Latin American countries there is a tendency to look at this problem as a purely political one, and I think, therefore, that to indicate, in this context, the necessity for parallel progress in this field would be a strong argument. Lastly, I suggest that we should add a reference to workers' nutrition.

Mr. STEIN. May I point out that we do not suggest a detailed discussion of paragraphs other than those in italics. The other paragraphs are just background material. We invite your comments particularly on the paragraphs in italics. We are not concerned about words or drafting. We want to know whether we have got the right points. We are only concerned with the essence of the arguments.

The CHAIRMAN. Is there any further discussion of 202 and 203? The observations made are carefully recorded.

That brings us then to Part III "Maintenance Services." The first paragraph in italics is paragraph 303:

III. MAINTENANCE SERVICES

Character of Maintenance Services

GENERAL

301. Maintenance services:

- (a) Bear residual responsibility for meeting primary needs not met by education, employment, health and housing services;
- (b) Meet need for food, clothing and shelter;
- (c) Are regulated by law;
- (d) Are administered by national or local governments or special institutions in interest of public or the group served.

INSURANCE SERVICES

(a) Right to benefit, ordinarily in cash, depending on prior payment, by prospective beneficiary or on his behalf, of contributions:

- (i) symbolising work performed by him;
- (ii) attesting his participation in service;

(b) Benefits defined by law with respect to:

- (i) contingency in which it is due;
- (ii) rate or amount.

303. Indications for insurance services. *Maintenance services based on insurance principle:*

(a) *Should be preferred because:*

- (i) *preserve personal sense of financial responsibility;*
- (ii) *are financially more practicable and secure than services financed exclusively by general taxation;*

(b) *Must be preferred:*

- (i) *where benefit is confined to limited area or occupational group;*
- (ii) *where benefit is proportionate to previous earnings.*

Dr. HEAGERTY. In the second paragraph the words "are financially more practicable" appear. That may apply in some countries, but not in all countries. I would suggest the word "desirable" rather than "practicable"—"are financially more desirable".

Mr. WATSON. I should like to go back to the same subject I mentioned before. The point at issue here is "maintenance services based on insurance principle . . . are financially more desirable and secure than services financed exclusively by taxation." I do not think we can properly speak of "maintenance services based on insurance principle financed by taxation." If we think in those terms, I am afraid we are going to come to very strange conclusions, and almost inevitably, however we started, we are going to come to a means test, eventually, and a good many other qualifying tests. In the New Zealand plan of social security, all the cash benefits except one small benefit are subject to means tests. It is true that these tests may not be very stringent, but benefits are subject to a large number of very unsatisfactory tests. For example, I think you must establish that you have for the past six years been sober, and in good health. Now, for insurance that is not appropriate. If a man pays his contributions, even though he may get drunk once in a while he is entitled to the insurance benefit when the contingency insured against arises.

Sir WILLIAM BEVERIDGE. I should like to comment briefly on Mr. Watson's remarks. As I understand it, Mr. Watson is suggesting that you cannot use the term "insurance," unless the whole of the money is provided by contributions of insured persons or their employers; that is to say, that there is no money from taxation. Is that so, Mr. Watson?

Mr. WATSON. No, sir. I agree that as you have it in Britain, it is quite satisfactory from an insurance point of view.

Sir WILLIAM BEVERIDGE. In Britain we regard a benefit as insurance, if two conditions are fulfilled. There must be a contribution by the insured person himself and not merely by his employer, and that is why if we make workmen's compensation insurance, I should say that the employee ought to pay part of the cost. The second and more important thing is that the benefit is paid as of right, without any means test at all. I thought you were suggesting that if any of the money was found by taxation. It was not insurance, but I now understand that you do not mean it that way.

Dr. HEAGERTY. I must confess that I do not understand the second part of 303; "maintenance services based on insurance principle * * * must be preferred:

- (i) Where benefit is confined to limited area or occupational group;
- (ii) Where benefit is proportionate to previous earnings."

It is our intention in Canada to apply health insurance to the entire country on the insurance principle with assistance from the Dominion, the employer, and the Provinces, and if you would be kind enough to explain that, I should be very happy.

Mr. STACK. The argument is, that the insurance method must be preferred where the benefit is confined to a limited area or occupational group. Why? because it does not seem just that you should provide a gratuitous assistance to a certain area of the country and not to the whole country. Similarly, to provide gratuitous assistance to one occupational group and not to other occupational

groups would seem to be iniquitous. Therefore, it is suggested that insurance should be applied in such cases, because there the insurance is not a gross charge on the state.

Mr. STEIN. Dr. Heagerty, you do not envisage the two hypotheses foreseen here. You envisage general nation-wide medical care. Your case is interesting, but it is said here that the insurance principle—that means providing social security through insurance—must be preferred in these cases where there is a limitation to an area or an occupational group, or where benefit is proportionate to previous earnings. Your case of a nation-wide medical care service by social insurance is not discussed in 303 (b) at all.

Dr. HEAGERTY. I was looking at this from the standpoint of the insurance principle raised by Mr. Watson, as opposed to the tax principle, and I think that might have been clarified.

Mr. REAGLIATI. I should like to point out that under an insurance system, the contributions can be supplemented by tax revenue.

Mr. ALTMAYER. I think Dr. Heagerty has the impression that we are discussing services in kind, but as I understand it Part III deals only with income maintenance, so medical care does not come into the discussion at this particular point.

Dr. HEAGERTY. The reason why I was so anxious about this question of the insurance principle, is that in Ottawa not all people are agreed with us that our plan is one of insurance. The method of obtaining the money is by contribution and should be insurance, but there are those—and they are in very important places—who say that this whole plan is one of taxation, and that is why I am dwelling to such a great extent on this question of the insurance principle, and why Mr. Watson has also referred to it. It is a burning question with us, I may say.

Mr. WATSON. I shall again have to refer to 303 (b) (ii) "must be preferred where benefit is proportionate to previous earnings." I cannot see that that limitation has anything to do with it at all. The argument is just as strong for insurance principles whether there is a flat benefit, or whether it is proportionate to previous earnings.

Mr. STEIN. May I make this point: you have, broadly speaking, the alternative between insurance and assistance—general assistance or categorical assistance, and the one point made in 303 (b) (ii) is that if you want your benefits to be proportionate to previous earnings, you cannot do it with assistance benefits, because it would be unfair to the whole of the population to exact higher taxes toward a system where previous earnings are taken into consideration. In some way the insured person must pay for his higher benefits, so we say; "if you want benefits proportionate to previous earnings, you must have an insurance system in some form. You cannot do it with assistance." There is no assistance, from New Zealand to Moscow and even to Japan, which could graduate benefits according to previous earnings. That can only be done in an insurance system. You will observe that 303 (b) does not say that the insurance principle is not to be utilised with flat benefits but only that it must be utilised when benefits are related to previous earnings.

Mr. COHEN. I believe paragraph 303 might be clarified in connection with the point Mr. Watson has made, if it said: "Maintenance services based on insurance principle in contrast to assistance principle."

Mr. STEIN. No confusion can possibly arise, if one looks at paragraph 305.

Mr. COHEN. Yes: but paragraph 305 comes later than 303, and I think you would clarify the thing, if you said "in contrast to assistance principle", so that the contrast is not between insurance as against a system financed by other than contributory methods. It is a contrast between two ways of providing benefits.

Mr. ALTMAYER. Unfortunately, several of us have to leave now to make a recording, but I hope that this group will not cease discussing this question of what is insurance as contrasted with assistance. I think it is very interesting and necessary that we clarify our ideas on that distinction, if there is a distinction, and it seems to me that we have to come back to some basic first principles as to what is meant by insurance, and secondly as to what is meant by contributory insurance.

The CHAIRMAN. These gentlemen are just going to do a recording to popularize and publicize your great work on social security.

Mr. LOPEZ ARTETA. I should like to have this much-discussed passage clarified to the effect that an insurance system should be applied, not only where the benefit is proportionate to previous earnings, but also where the benefit consists of both a fixed sum and a proportionate sum.

Dr. HEAGERTY. Does the word "*benefit*" in the paragraph under discussion refer only to cash benefit?

The CHAIRMAN. Yes.

Dr. ETCHEBARNE. We have to give our opinion on the problems presented here and say what we think is the best solution. For me, the rule has been very well put by Sir William Beveridge: American countries should apply that system which best suits their circumstances—on the one hand an insurance system, and on the other an assistance system to cover those cases in which the insurance system cannot fully meet the need, with some provision for minimum wages in such cases. In order to expedite discussion we should mention if anything has to be added, and also indicate which is best among the suggestions here made.

Mr. REBAGLIATI. I think that it is necessary to make more precise 303(b) (ii) referring to benefit proportionate to previous earnings. All controversy would be avoided, however, if we say simply that the benefit is proportionate to earnings, omitting "previous", since the benefit might be proportionate to present earnings. There are two different cases. Where the benefit is conditional on the completion of a qualifying period of time the benefit is proportionate to the wages earned during the qualifying period. Such is the case with those benefits of insurance which are financed on the accumulation or reserve system, but it is not the case with those which are financed on the current cost system. For example, in case of sickness we cannot speak of a benefit proportionate to previous earnings; that would be unjust and even dangerous.

Mr. LOPEZ ARTETA. I believe that we are quite clear now about 303. We agree that maintenance services based on the insurance principle are to be preferred, especially in those cases referred to in 303(b), where the benefit is proportionate to previous earnings. There are some insurance schemes which provide a uniform basic benefit, with supplements proportionate to previous earnings, so that the benefit is of a dual nature. In other countries the benefit is computed on previous earnings. In either case the insurance principle must be preferred.

Mr. STEIN. The Office is very grateful indeed for any comment made. When we oppose speakers seemingly, it is just to make the sense clear; we really are greatly indebted for any comments. That is precisely the aim of the meeting—to present our plan for your critical consideration—but I think it is more interesting to you, if we defend the text a little bit. Discussion is democracy.

Now, may I say a word to Mr. Lopez Arteta and Mr. Rebagliati. Mr. Lopez Arteta said essentially that there may be benefits which are partly proportionate to previous earnings and partly not proportionate: that is, there may be a basic amount with a supplement proportionate to wages. Regardless of what is the ratio of the proportionate and the nonproportionate parts, the fact is that if only 5 per cent of a benefit is proportionate to previous earnings, it is a proportionate benefit.

I now come to Mr. Rebagliati who is always very logical. He says that "sickness benefits" should not be related to previous wages. But how do you determine your wage class for sickness benefits? You ask "how much did you earn last week?" We do not say "previous earnings" in the sense of some distant period, but somehow a benefit is related to a previous earning—perhaps earnings on the eve of the day he gets out of a job. Do you agree?

Mr. REBAGLIATI. Yes.

The CHAIRMAN. Is there any further discussion on paragraph 303?

If there is no further discussion, we will take paragraphs 304 and 305. Paragraph 305 is in italics.

NOTE.—Provisional Record of the Social Security Consultation on Income Maintenance B-20 (4) and Medical Care, Document SSC 4, International Labour Office (p. 63), Montreal, 1943 July 11.

ASSISTANCE SERVICES

304. Assistance service implying:

- (a) Obligation of public authority to provide benefit in proper cases;
- (b) Financing from taxation;
- (c) If service is categorical, benefit defined by law:
 - (i) at subsistence rate, subject or not to needs test;
 - (ii) with respect to contingency in which it is due;

(d) If service is general, benefit:

- (i) proportionate to ascertained need;
- (ii) decided, with respect to form, rate or amount, by assistance authority.

305. Indications for assistance services. *Maintenance services based on assistance principle recommended;*

(a) *To provide substitute for insurance benefit for persons:*

- (i) *uninsured;*
- (ii) *not fulfilling qualifying conditions;*
- (iii) *having exhausted insurance benefit;*

(b) *To supplement insurance benefits where they do not cover needs of case.*

Mr. FALK. May I suggest that consideration be given to the possible need for a fourth category, in addition to the three given in 305 (a). The need for the use of the assistance principle for the income maintenance service in the transitional period, when a new insurance scheme is introduced would be very important in many systems, and I suspect that it would not be covered in the three categories listed.

Mr. REBAGLIATI. I refer to 305. At the Santiago Conference I asked that, in connection with the discussion on invalidity insurance, a resolution be adopted dealing with insured persons who become invalids shortly after entering insurance; however, no such resolution was adopted. Thanks to the Beveridge Plan and this meeting, I am glad to see here that eminent authorities consider that such cases should be taken care of by assistance, which is just what I proposed at the Santiago Conference.

Mr. RAGGI. I would go further than Mr. Rebagliati. I do not think that an insured person should be obliged to have recourse to assistance because he has exhausted his insurance benefits or has not completed the qualifying period. I believe—and I have so argued with lawyers in my country in connection with invalidity, old-age, and survivors' insurance—that from the moment when a person enters insurance he should be insured against every risk, and that the fact that he is for any reason not able-bodied should be sufficient to justify the payment of benefits even though his contributions are not sufficient to finance them. Thus, when a person contributes to insurance he should have no need of the services of assistance.

Mr. WATSON. I should like to refer to the remarks of the last speaker. I gather that the idea is that, in the case of sickness cash benefits once the individual is eligible for the benefit, it should persist as long as the condition persists. From an insurance point of view, that is theoretically sound. That is the point of view that Sir William Beveridge is pressing for. But what is theoretically quite correct, in insurance as in many other spheres of activity, has to be tempered by a little bit of practical sense. I will give an illustration that will make the point sufficiently clear for all purposes. In Britain they have had sickness insurance for over 30 years. After 26 weeks of sickness benefit, there is a reduced invalidity benefit of one-half the sickness benefit for an indefinite duration. In 1927 Sir Alfred Watson, the Government Actuary, made an investigation of what happened to those persons who in 1927 went on half benefit. Now, my recollections may not be entirely correct, but they are substantially so; of those who went on invalidity benefit in 1927, 50 percent found themselves well enough to get work somewhere within one week, and work was very difficult to get in Britain in 1927. That would not apply, of course, in some other kinds of insurance, such as old-age insurance, because there, once on benefit, a man does not get young again. It would apply, however, to an unemployment benefit unlimited in time. Persons who have been on benefit for some considerable time are liable, to get, perhaps, a bit neurotic, and it is rather difficult to persuade them that they are not really incapable of work. Therefore we cannot follow sound insurance theory all the way, any more than we can follow any other theory all the way.

Mr. REBAGLIATI. I wish to speak on the explanation given by the Cuban delegate. Insurance benefits are based on a previous calculation of their cost. From this calculation is deduced the appropriate rate of contribution. That there should be some limit to the benefits of invalidity insurance and to those of sickness insurance is therefore natural. If an insurance scheme were to provide immediately every kind of benefit, there would be no actuarial relationship between the benefit and the contribution. If, for example, invalidity benefits were to be provided for all the chronic sick in existence, the contribution would be unbearably high and the youth of the country would be paying for the

benefits of the previous generation. That cannot be done. As I understand it, social insurance is the principal element in the social security which we all desire. Social insurance, however, needs to be supplemented by national assistance on behalf of those cases which are outside the ambit of the insurance scheme. All persons covered by insurance have a right to its benefits, and assistance must take care of those cases which insurance does not cover.

Mr. SANDOVAL. I agree with Mr. Rebagliati.

The CHAIRMAN. Is there any further discussion on 305? Then we can go ahead to paragraphs 306 and 307, which are as follows:

Services of Intermediate Character (New Zealand)

306. Under New Zealand Social Security Act:

(a) Right to cash benefit defined by law:

(i) at subsistence rate subject to needs test from which persons of small means are practically exempt;

(ii) with respect to contingency in which it is due;

(b) Financing by special income tax.

307. Indications for services of intermediate character. *Maintenance services of intermediate character are capable of replacing both insurance and assistance services in countries where:*

(a) *It is practicable to collect income tax from almost all income receivers;*

(b) *Standard of living is fairly uniform;*

(c) *Ample facilities for supplementary private thrift exist.*

Mr. STEIN. I would, on behalf of the Office, withdraw 307, for the simple reason that we put it in to render homage to the New Zealand solution. New Zealand has realised a scheme *sui generis*, but it is probably possible only in a small and prosperous country. It is a complicated and highly developed scheme, which gives rights with the means test. Paragraph 306 points out the principal features. It puts on record that there is an intermediate scheme, between insurance and assistance, but there seems to be no prospect of a second New Zealand scheme, and we do not think that it would be profitable to discuss it here. You have the text of the New Zealand Act in the Legislative Series in your batch of documents—we will forward it to your home address if you like—but I don't think you would discuss it now.

The CHAIRMAN. Is that agreed?

(Agreed.)

The CHAIRMAN. Paragraph 307 will be withdrawn. Paragraphs 308 and 309 read as follows:

Extension of Scope

CLASSIC PATTERN

308. All wage and salary earners directly insured.

Dependent wife and children:

(a) Maintained by breadwinner's benefit, rarely incorporating supplement on their behalf;

(b) Indirectly insured by breadwinner for survivors' pensions.

Retention, while receiving any benefit, of insurance status with respect to all other benefits.

OBJECTIVE

309. Comprehensive scope. *As a maximum to insure all income receivers directly and dependants indirectly, involving extension of protection to:*

(a) *Higher salary earners, but, where contribution is proportional to remuneration, assigning maximum salary for insurance purposes;*

(b) *Nonemployed;*

(c) *Dependents, with specific provision in breadwinner's benefit.*

Mr. FALK. Before we discuss this paragraph, I would like to ask for a word of clarification as to what the terms mean at certain points. In 309 (a) the phrase "higher salary earners" is used. May we assume that the term refers to higher wage earners as well as salary earners? Then 309 (b) refers to "non-employed. Does that mean the *nonemployed* or the *self-employed*? If it means the self-employed, then the whole scope of the paragraph will be very much broader than if it means the nonemployed in the sense of those who are without employment, whether seeking it or not.

Mr. STACK. As regards "higher salary earners," the word "salary" was used instead of "wage" because in the vast majority of insurance schemes of the world, the wage earner or manual worker is insured irrespective of his salary; there is not the slightest objection to saying "higher wage earners" as well.

In 309 (b), "nonemployed" means persons who are not working for another person. They may be persons who are not working at all, but are not dependants—they are, perhaps, renters—or else they are persons whom you call self-employed. The dependants are the people who have no direct relation to the insurance scheme, but only through some other income receiver.

Mr. REBAGLIATI. I prefer "remuneration" to "salary".

Dr. HEAGERTY. Paragraph 309 deals with income earners. You say: "as a maximum to insure all income receivers," and then you deal in 309 (a) with "high salary earners." Do you mean the larger incomes there? Is that the point?

Mr. COHEN. I wonder if the word "insurance" in 309 (a) is not meant to be the word "contribution".

Mr. STACK. No, it applies to benefits too.

Mr. COHEN. Well, is it not advisable, in any case, to make a distinction between the entire system as an insurance system and contributions or benefits alone? With regard to 309 (a), for instance, in the United States system we provide, where contributions are proportionate to remuneration, a salary limit for contribution purposes, but that does not have any effect on coverage or on eligibility for benefits.

Mr. WATSON. It is difficult to make a summary statement of this sort tie in properly with actualities. I am not sure that there has been conspicuous success in this particular paragraph. I judge that the paragraph relates to additions to the insured person's benefit, rather than to separate dependants' benefits.

Mr. STEIN. Sure.

Mr. WATSON. Well, if that is so, I think it is perhaps more narrow than it ought to be, because it does not fit many situations. Paragraph 309 (c) certainly does not comprehend what we are doing now in the way of health insurance. Under health insurance a man's wife is ordinarily a dependent; she is not to be insured through his contribution.

Mr. STEIN. We are talking here of benefits in cash.

Mr. WATSON. Perhaps my point may not apply then; on the other hand it might apply if there were allowances for the dependants in cash sickness benefits. If there were a cash supplement for a man's wife, for example, I think we should have to have a separate dependant's contribution and not have dependants covered by the employed person's contribution. If they are covered by the contribution of the employed person or the self-employed, then the single man will all the time want to substitute some adult—his mother, or his sister, or somebody else—to get the supplement, and you will run into so much trouble that I think the only way out for that kind of benefit is to have a separate contribution for each adult. It is not so for children, however.

Mr. STEIN. We come back to this point later on.

Mr. WATSON. My point, I think, is well enough taken to consider old-age pensions. A man's wife, for instance—if she is to have an old-age pension you will have to have a separate contribution.

Mr. STEIN. We are talking here about scope. We will talk about contributions later.

Mr. FALK. I think that paragraph 309 beginning with the basic question of the total coverage needs to be perfectly clear. In the English text, there are ambiguities. I would therefore suggest that in the interests of being sure that we understand this on common ground, it should be amended to read:

- (a) All wage and salary earners, but, where contribution is proportional to remuneration, assigning maximum income for contribution purposes;
- (b) Self-employed.

Mr. STEIN. I think Mr. Falk's amendment is perfectly clear. You will have plenty of opportunity to come back to those points in discussing 310 and 312. The question is: How can we expend the classic insurance formula into the new social security concept à la Beveridge-Marsh? That is the difficulty. You must go through this definition. It is very difficult, I admit—even the terms are new—but for that reason we are very grateful for any comments you make. I hope you will find a terminology which is really valid everywhere.

Mr. LOPEZ ARTETA. As one of my colleagues has said, we must understand clearly what we mean by the "extension of scope"—what exists already in some countries and what it is we have to extend. The objective of extension to per-

sons earning high salaries refers only to salary earners. We should, however, extend insurance to all persons who receive wages or salaries. We should therefore say "extend it to all income receivers but fixing a maximum salary for insurance purposes." However, contributions should not be paid on the excess of salaries beyond a certain limit. Under our legislation high salary earners are covered by insurance.

The CHAIRMAN. Is there any further discussion on 309? If there is no further discussion we can go on to 310, which is as follows:

Extension of Scope

METHOD

310. Non-employed persons.

(a) *Extension by means of:*

(i) *special scheme for non-employed persons; or*

(ii) *inclusive scheme for employed and non-employed persons;*

(b) *Criterion of scope of direct insurance for non-employed income-receivers:*

(i) *Citizenship;*

(ii) *exercise of gainful occupation (exclusion of rentiers).*

Mr. COHEN. Just one minor point in the English. The word "citizenship" would present a special difficulty to us, because we have such a large number of individuals who are residents of the country but not citizens. I do not know how to overcome the difficulty. . .

Mr. STACK. We could say: "normal residents."

Mr. COHEN. It is something like that, but it is not citizenship.

Mr. WATSON. I believe it would help in discussing this if we had a statement of the kind of risks you had in mind when it was prepared.

Mr. STACK. The part we are dealing with here is "Extension of Scope". We are not detailing which risks are covered; that is dealt with under "Extension of Contingencies Covered", and there the question will be raised whether it is possible to apply unemployment insurance to persons who are not employed.

Mr. FALK. I should like to suggest that the condition of eligibility should determine the right to benefit. If the individual has paid the required number of contributions under the circumstances determined by the insurance institution he should become entitled to benefit. I do not see the need for a term like "citizenship", or "residence", or any other such term there. If the eligibility conditions as elsewhere stated are fully satisfied, nothing more is needed. There is in 310(b) (ii), a criterion that implies that the individual has been attached to the labour force.

Mr. STACK. There you have a criterion: "exercise of gainful occupation." But you cannot define the scope of the scheme by saying that a person who fulfils the eligibility conditions is eligible, because that is tautology. You must first of all say who is to be allowed to fulfil the conditions of eligibility, and for that purpose, once you get outside such clear notions as employment or self-employment, then you must have some other term; that is the term we are looking for.

Mr. REBAGLIATI. In its legal meaning the word "citizen" applies only as from a prescribed age, such as 21, whereas employment may begin at 14. Therefore we should substitute "workers", or confine ourselves to (b) (ii).

Mr. FALK. I think perhaps the concept that needs to be defined more precisely here is one foreign to the term "citizenship" or "residence" and is merely "the performance of work covered by the Act within the geographical scope of the Act", and if a phrase to that effect could be put in, either separately or linked with (b) (ii), but in the geographical rather than in the legal sense, we shall have what we need.

Mr. REBAGLIATI. I propose that the choice of the term should be left to the Office so that we may avoid further discussion.

Mr. SANTOS GUAJARDO. I should like an explanation of the term "non-employed". It seems as though it were being used instead of "self-employed", but in Spanish it suggests that persons without occupation and the unemployed are included as well as independent workers.

Mr. RAGGI. As with the term "citizens" so here: I think we ought to leave this detail to be settled by the Office.

Mr. LOPEZ ARTETA. It seems that the proposed system would include not only independent workers but also renters: "non-employed" would therefore be correct.

Mr. BERAGLIATI. I think we ought to omit the phrase "exclusion of rentiers."

Mr. RAGGI. In that case I have something to say, for then the situation would be different: whether the original idea was that of citizenship or not—and Mr. Rebagliati made certain observations with which I do not agree—the extension of insurance to residents would involve a problem which is even more serious. In that case I would prefer "citizenship". I do not agree that a minor has no citizenship since he inherits it from his father.

Mr. SILVERIO. It will be better to adopt Mr. Rebagliati's idea and let the Office explain what is meant by "citizenship".

Dr. GROVE. I propose that we refer explicitly to citizens, both national and foreign.

Mr. SILVERIO. In these social questions the further we go in the way of protecting foreigners the more risk we run of leaving out some of the nationals of the country.

Mr. REBAGLIATI. Whether we put "citizen" or "resident", it is just a question of words. Each country when applying these methods will have to legislate and will then decide what is to be understood by the respective term. Let each country decide who are to be the insured.

Mr. FAIK. I do not want to labour the point, but inasmuch as it seems to be a point that we shall have to leave to the members of the I. L. O. staff, I should like to add just one point which I hope they will take into consideration with reference to the application of these documents to the United States. We have in the United States millions of persons who are not citizens of the United States. The questions involved with respect to a term like "residence" are vastly more complex. Self-employed persons engaged in occupations under which they would or should be subject to a social insurance system, should not be excluded from the scope of that system by reason of residence or citizenship requirements. Accordingly I would hope very much that the I. L. O. staff would not produce a document which would contain as a recommendation something that in the United States would seem to keep persons outside the scope of insurance on the criterion of residence or citizenship. The criterion should be that of their performing gainful occupation, on the territory subject to the Act.

Mr. STEIN. That will be taken into account.

Mr. COHEN. I suggest that the Office should consider substituting the words "as members of the community" for "citizens". It seems to me that that is general enough to allow for each country to define it as it wishes, taking into account its own conditions and special problems.

Mr. RAGGI. We quit agree: this seems the proper course.

Dr. GROVE. I think it will be sufficient to say "scope of direct insurance for income receivers who are not employed". To this principle exceptions might then be made.

The CHAIRMAN. Is there any further discussion on paragraph 310? If there is no further discussion, we can go on to paragraph 311, which is as follows:

Extension of Scope

METHOD (CONTINUED)

311. Marginal contributors. *Non-employed persons (other than dependants whose income is below minimum of subsistence or other prescribed level) may be*

- (a) *Excluded from insurance;*
- (b) *Included, paying token contributions;*
- (c) *Exempted from contribution in deserving cases, but insured indirectly for minimum benefits by contributions of public authority.*

Mr. REBAGLIATI. In 311(c) there is a reference to exemption from contribution in deserving cases of persons insured indirectly for minimum benefits by the contributions of a public authority. Probably one of the few countries in the world whose insurance legislation covers persons with very small incomes is Peru, whose law I had the honour to draft, but now I recognise that it was an error on my part which I have now been able to rectify, for it is my opinion that low wages should not be encouraged but discouraged. For the whole paragraph I would say "marginal contributors and non-contributors".

Mr. WATSON. I am not sure that a good deal of the difficulty does not come from discussing some of these words in isolation from the whole scheme of things, because each one of us, to give much meaning to any of these points, has to

hitch the point up to a whole scheme of insurance, and each of us probably does that for a different scheme of insurance. I am not sure that our discussion is really leading us to a better understanding of what social insurance is or what it ought to be. Now, if we think of self-employed persons whose incomes are below a minimum of subsistence, their income may be below a minimum of subsistence for innumerable reasons. It may be in part because they do not want to work any more than a minimum of some sort. In any event it does seem to me that including such persons in any insurance scheme by a token contribution has to be watched with a great deal of circumspection. I think it is quite correct to include employed persons with low earnings—their contribution may be very low or may be paid by the employer—but when we come to self-employed persons we are getting on to very difficult insurance ground. We ought at some time to try to get into our minds more specifically what social insurance is about—the fields in which it may be operated, the safeguards which are necessary in those fields, and all the surrounding circumstances—but when we discuss any particular point by itself, unless we hitch it up to the whole scheme of things, the point in itself is rather devoid of meaning.

Mr. STEIN. We try to do our job fully and honestly. There is the Beveridge Plan, there is the Heagerty Plan, which aim to cover the whole population, and this extension gives rise to cases which are marginal. The title of this paragraph is "marginal contributors," thus pointing out that it is not a question of very general interest, but still the question arises. We put the question to you. If you have no comments on this, let us go on; we just call attention to the fact that these questions exist. Dr. Heagerty has to solve the problem; Sir William Beveridge has to solve the problem.

Mr. COHEN. I have several suggestions to make with respect to this paragraph. In 311 (c) I would suggest the elimination of the word "deserving," which seems to add a moral connotation which is undesirable here. If necessary I think a word such as "special" or "certain" should be used.

(Dr. Heagerty suggested "prescribed.")

Secondly, the use of the word "minimum" in that sentence would seem possibly unnecessary, since the different countries, or in our country different states, may want to set the benefits at different levels. I think you could just say there "indirectly for benefits which will avoid being too specific. That raises a question, however, of a more general nature: whether it might not be desirable to add in the heading, after "marginal contributors," "and non-contributors." I have this idea in mind: here is the point at which you perhaps can get a fusion between the contributory system and the assistance system in those cases where you wish to bring people who are not contributing into the insurance system by making the State, for instance, contribute on their behalf. Here is a point where you can exempt individuals from contributions which they make themselves, but allow someone else to make contributions for them, and thereby fuse the two systems together. Therefore I would suggest that you broaden this paragraph by calling it "marginal contributors and non-contributors."

Mr. STEIN. Let me add a detail. That will necessitate slightly modifying other things, because in 311 (b) and (c) there are potential contributors who may not contribute for different reasons. But it is all right; we can make it "marginal contributors and non-contributors."

The CHAIRMAN. Is there any further discussion on this paragraph? If there is no further discussion we can go on to 312, which is as follows:

Extension of Scope

METHOD (CONCLUDED)

312. Family members.

- (a) *Children can be insured only indirectly through bread-winner.*
- (b) *Wives may be directly insured as:*
 - (i) *citizens and income-receivers;*
 - (ii) *gainfully occupied.*
- (c) *Housewives may be indirectly insured by husband as dependents.*
- (d) *Other adult relatives rendering unpaid service in household or undertaking of head of family may be insured indirectly by him on basis of market value of service.*

Mr. RAGGI. An important problem arises in connection with 312 (a). For some time we have, in conformity with the Geneva Conventions, been trying to evolve regulations to prevent children from working. Nevertheless, a great many chil-

children do work illegally, and from this paragraph it would seem that children, even though they do work, would not be insured persons. An age limit ought to be specified.

Mr. WATSON. I am not clear in my own mind whether this paragraph relates to family members of both self-employed and employed persons.

Mr. STACK. Paragraph 312 (d) "other adult relatives" is a class which is extremely difficult to place. Nobody quite knows whether they are self-employed, whether they have any occupational status or not. The important thing from the point of view of social insurance is to make somebody responsible for paying the contributions of these adult relatives. Either those persons are rendering an economic service, in which case a contribution ought to be paid in respect of them, or they are not, in which case they are dependents and the person who takes legal responsibility for their maintenance should cover them by insurance. In any case, from the social point of view it seems expedient to define their status.

Mr. COHEN. I have a question in connection with 312 (d). As I read this, it applies to the question of bringing adult relatives into the system with respect to contributions, and hence this comment relates to the question that I raised some time ago. For instance, in the Federal Old-Age and Survivors Insurance system of the United States, we provide benefits to the parents of a deceased individual, as a *class of beneficiaries*. They are not brought in, however, as a *class of contributors* so that you can get this separation that I mentioned a moment ago between individuals as contributors, and individuals who may be beneficiaries as members of a family covered indirectly by the contribution which the breadwinner makes. Now I raise that point not because I have any desire to see it unduly stressed, but because I think if there is any problem with which we in the United States have had a good deal of difficulty it has been the inclusion of parents as a class of beneficiaries. To take a moment to illustrate the point, our law at present provides that where there is no wife or child who is entitled at that moment to monthly benefits, the aged parents are eligible for monthly benefits if they were wholly dependant on the deceased wage earner. We say in the United States that the wife and children of a breadwinner are presumptively dependent on the breadwinner while other classes of beneficiaries are not. We have gone a little way in the direction of attempting to define a class of beneficiary that is not the presumptive beneficiary. Now I think that is worthy of note, because, in recent years there has been in the United States, a demand to broaden the class of beneficiaries beyond children and wives. We are at a very great loss to determine how to bring in the other classes of beneficiaries without getting into a complicated test of dependancy or a means test but I think the Office should take notice of the facts first, that there is a group which could be brought in as beneficiaries without contributions being made specifically on their behalf and, secondly, that there is a broadening of interest, at least in our country, in the demand for including a larger number of beneficiaries than simply the wife and children.

Mr. STACK. I should like to say one word about Mr. Cohen's observation, and that is that this paragraph takes a rather long-term view, that parents will presumably be eliminated as a class of dependants because they will in their own right be entitled to old-age pensions under a national insurance system.

Mr. FALK. The problems of the transitional period, however, will be very difficult.

Mr. REBAGLIATI. I find 312 (d) perfectly clear, since it takes account of the two necessary technical divisions: service rendered to the head of a family who is himself insured directly, and membership of a household.

Mr. STEIN. I would just like to say that it will be necessary, as Mr. Watson pointed out, to make those corrections, but you still have very important questions to discuss—financial questions, and medical care services—so please be economical with your time. There is a lot of work to be done tomorrow and the day after.

The CHAIRMAN. The time has now come for adjournment, but first I should like to read the resolution which was submitted to us this morning by Mr. Rebagliati:

The social security experts, having met in Montreal, on the initiative of the International Labour Office, declare:

(1) That their deliberations and exchange of experiences and methods are inspired by the principles proclaimed by the United Nations in the Atlantic Charter, where it is affirmed that "they desire to bring about the fullest collaboration between all nations in the economic field with the object of securing for all improved labour standards, economic advancement and social security".

(2) That they recognise, duly appreciate and admire the unalterable decision of the United Nations to eliminate, to the extent of the capacity of human initiative and effort, the causes of social insecurity, misery, privation and anxiety, which arise from unsatisfied needs.

(3) That they express their faith and confidence in the victory of the United Nations, which will serve as the basis of new and noble principles of solidarity, neighbourliness, fraternity and social justice.

If I may, I would like to congratulate you, Mr. Rebagliati, upon the excellent phrasing of that resolution, and I take it that it has the approval of the meeting.

I would also like to express my own appreciation of the constant and patient attendance here today of Mr. Carter Goodrich, the chairman of the Governing Body. We certainly appreciate the very great interest he has taken in the work of this Consultation.

I declare the sitting adjourned.

The meeting rose at 5:25 p. m.

FOURTH SITTING, SUNDAY, 11 JULY (MORNING)

The meeting opened at 10.35 a. m. Mr. Ian Mackenzie was in the Chair.

The CHAIRMAN. I should like to make it known that at 5 o'clock this afternoon we shall adjourn to the nether regions here to listen to a radio discussion by four of our distinguished members recorded yesterday for presentation this afternoon.

May I add that it might be advisable for those interested in the section dealing with medical care to convene this afternoon, under the chairmanship of Dr. Etchebarne, in a separate room and report back to the plenary session of this consultation—that is, if we are not able to arrive this morning at discussion of the sections dealing with medical care. It would save time if those particularly interested and particularly expert in this question would be kind enough to meet separately and then report back to this Conference later on.

The first section for discussion this morning is paragraph 314 of the Agenda, which, in its setting, is as follows:

Extension of Contingencies Covered

CLASSIC PATTERN

313. Insurance covers:

- (a) Sickness (no qualifying period; temporary; 26 weeks);
- (b) Maternity (10 months' qualifying period; employed women, 12 weeks);
- (c) Invalidity (5 years' qualifying period; after sickness; loss of $\frac{2}{3}$ of earning capacity);
- (d) Old age (10 years' qualifying period; retirement optional);
- (e) Survivors (5 years' qualifying period):
 - (i) widow, if and when unable to earn her living by reason of age, invalidity or care of child;
 - (ii) invalid widower, dependent on wife;
 - (iii) children under school-leaving age.
- (f) Funeral of insured and sometimes dependents (no qualifying period);
- (g) Occupational incapacity and death (no qualifying period):
 - (i) temporary incapacity;
 - (ii) permanent incapacity (according to degree);
 - (iii) survivors;
 - (iv) funeral.

OBJECTIVE

314. Comprehensive coverage of needs. *To cover all such major common contingencies of loss or insufficiency of means of support as are amenable to insurance, involving:*

- (a) *Covering child maintenance;*
- (b) *Covering unemployment;*
- (c) *Covering unemployability;*
- (d) *Consideration of compulsory retirement;*
- (e) *Adaptation of contingencies covered to non-employed;*
- (f) *Reconsideration of qualifying periods.*

Mr. FALK. I would raise two points concerning what I suspect to be a verbalistic problem. First, with respect to 314(c), the use of the term "unemployability" should be interpreted with respect to the further interpretation given in 317. I should like to raise the question whether, in the opinion of the Office, the use of the word "unemployability" and the explanation given in 317 are necessary, in view of the fact that it is quite a common practice to define incapacity for work in most invalidity schemes in such a manner that the definition automatically excludes persons who meet the requirements set forth in 317. If the term and the explanation in 317 are not necessary, then I think that in 314(c), it would be much more explicit and meaningful to use the term "incapacity for work" or "disablement, temporary or permanent", instead of "employability". I suggest also that in 314(e), the term "non-employed" should be replaced by the term "self-employed."

Mr. STACK. The word "unemployability" has been used here not, indeed, to replace the word "invalidity" but to draw attention to an extremely important question. Invalidity insurance has been practised for a great many years. When it was started, there were no employment offices and nobody knew how to place people. The notion of invalidity was that there was some theoretical employment available to the man, and if he was capable of such theoretically available employment, then he was not an invalid. When unemployment insurance came into existence it became necessary to dovetail together the notion of invalidity and unemployability, so that the man did not fall between two stools. Either a man was an invalid, in which case he could be invalidity benefit but not unemployment benefit, or he was not an invalid, in which case he could get unemployment benefit but not invalidity benefit. That is the point we are trying to bring in here.

Dr. ETCHEBARNE. In 314 (e) there is a word which seems to be wrong; it should be "extension of risks covered to non-employed."

Mr. STEIN. It is not a question of extension but of adaptation.

Dr. ETCHEBARNE. In order that we may proceed more rapidly, I propose that we should not continue the discussion on this point but reserve it for the relevant paragraphs appearing under "Methods."

Mr. REBAGLIATI. I should like to have a small matter explained to me by Mr. Stein. In 314 (d) it says "consideration of compulsory retirement." Is it the intention to withdraw from employment persons receiving old-age benefit and to give up the old principle of social insurance that anyone may continue working who can do so? Is it intended by this means to relieve unemployment, or is there some other object in compulsory retirement?

Mr. STACK. "Consideration of compulsory retirement" is a very important question which the Office offers to the experts for consideration. We would very much like to know that you think about accompanying the grant of an old-age pension with an obligation to retire. Some countries do it and some do not. The question is particularly difficult when it is attempted to apply it to nonemployed persons.

The CHAIRMAN. Are there not in the Beveridge Report some special considerations for those who retire at a certain age?

Mr. WATSON. I am against the provision of compulsory retirement as an unnecessary interference with the individual. Retirement from a particular employment is one thing, but the obligation to withdraw entirely from the labour market is another thing. For the great majority of people it is better for them and better for everybody if they have employment even when they are old—such employment as they are capable of doing.

Mr. STEIN. There is no compulsory retirement. The point is that the pension is not granted unless the person retires.

Mr. WATSON. With regard to compulsory retirement, as I understand it, the question is whether the individual is to be required to retire before being entitled to a pension or not.

Mr. STEIN. It should be read in the light of 318.

Mr. WATSON. Well, compulsory retirement surely means compulsory retirement.

Mr. SARAVA. I think it wise to adopt the expression "compulsory retirement." In Brazil legislation provides for compulsory retirement in certain circumstances. For example, when a person is suffering from such a disease as leprosy or tuberculosis, either the Government or the employer may insist on retirement. I am not saying that compulsory retirement should be a general rule, but I think it most necessary to provide for it in special cases.

The CHAIRMAN. We will discuss this point further under 318 when we come to that. With your permission we will now discuss 315, Child Maintenance, which reads as follows:

EXTENSION OF CONTINGENCIES COVERED

METHODS

315. Child maintenance. *Compensating inelasticity of breadwinner's income or insurance benefit with respect to cost of rearing children, varying with number and age:*

- (a) *By benefit:*
 - (i) *in cash;*
 - (ii) *in kind;*
 - (iii) *partly in cash, partly in kind;*
- (b) *Granting benefit to:*
 - (i) *families above a certain size;*
 - (ii) *all children;*
- (c) *By insurance, while breadwinner receiving insurance benefit and after his death (instead of or as well as orphans' pensions);*
- (d) *By categorical assistance:*
 - (i) *subject to needs test;*
 - (ii) *irrespective of means.*

There is a correction in 315 (c), which should read as follows:

- (c) *By insurance*
 - (i) *while breadwinner receiving insurance benefits and after his death (instead of or as well as orphans' pensions);*
 - (ii) *at all times.*

Is there any discussion on 315?

Dr. ETCHEBARNE. In the light of the experience we have gained in Chile with child maintenance, we think that the benefits should be given to all children, and that they may be paid partly in cash and partly in kind. At present in Chile the entire benefit is in the form of food, milk, or other food being supplied up to the age of one. This service will have to be extended, and there is a Chilean bill which raises the age limit for these benefits to 15. We pay benefits in cash and in kind in all circumstances, including that of the father's death, irrespective of the means of the insured person; only so would it be possible to make the necessary calculations.

Mr. MARSH. There is no mention here of a very important point which I should like to see mentioned if the group is willing. There is no indication of the important point that it is only with children's allowances that it is possible to construct a really logical and efficient insurance scheme. In other words, if you have general children's allowances you do not have to worry about dependants' benefits tacked on to each of the units of social insurance. As Sir William made clear yesterday, "If you really desire to eliminate want, then you must have children's allowances; otherwise you are forced to strain your units of social insurance too far."

Mr. STEIN. That appears under 324 (b).

Mr. ALTMAYER. I do not agree that you cannot construct a logical social insurance system without danger of anomalies with regard to benefits in relation to wage loss unless you have universal children's allowances. It is true that, if you start with flat benefits as in Britain, you are bound to get anomalies in the case of large families, but if your benefits are proportionate to wage loss, with a maximum of 80 to 85 percent. of wages for all benefits including dependants' allowances, there is no danger of that anomaly. However, if the wage level is very low, then the question arises: Are you meeting a sufficient proportion of the need by restricting the total benefits to a proportion of the wage loss when the total wage received may have been no more or even less than a minimum of subsistence? That brings me to the question of what is the wage level of a country in relationship to subsistence. Now, Sir William says in his report that even in Great Britain three-fourths to five-sixths of all dependency is due to the interruption of income and not to inadequate wages or other causes. Therefore only one-fourth to one-sixth of dependency can be due to inadequate income. I am confident that in the United States the wage level in relationship to subsistence is far higher, so that the proportion of destitution due to inadequate income rather than to interrupted income would be much less than in Great Britain. To meet the residual amount of destitution that is uncompensated when you relate benefits to wage loss, you must, of course, rely upon assistance,

with the dreaded and hated means test. I do not agree that if the proportion of destitution that is due to inadequate income is small, a needs test is necessarily the greater of two evils. In other words, I am conservative and reactionary enough to believe that there are some great difficulties, some great hazards, involved in the institution of a universal system of children's allowances.

Dr. HEAGERTY. If I understand Mr. Marsh correctly, in Canada two-thirds of the married men with families have an income of \$1200 or less. Now that is not subsistence level at all in so far as the children are concerned, and I would therefore suggest that we do recommend universal children's allowances. I make my recommendation as a physician, because I believe that if we can make a universal grant such as that recommended by Sir William Beveridge, we shall pretty quickly see a reduction in tuberculosis among children, if not the elimination of tuberculosis. I am strongly opposed to a needs test for children's allowances in Canada; I do not think it meets our requirements at all.

Mr. MARSH. I would like to give three reasons for disagreeing with Mr. Alt-meyer.

The first is that in what he says he is really assuming that wage levels are adequate to cover the needs. He says that if you have a proportionate benefit you can then expect reasonable benefits for a large group. Well, I question that. To begin with, it is not only a matter of wages, it is a matter of other earnings too. You have to consider farming incomes and other earnings in kind. But in any case, it is very questionable whether you can really assume, for any large proportion of the wage earners, that the proportion of wages that they get as benefits will be enough to cover large families—and mind you it is the large families that we are thinking about.

The second point is one of technique. If you are going to rely on allowances tacked on to unemployment insurance or other benefits in the upper levels and certainly in the lower levels you must have a fairly high ratio of total benefits to wages—75 to 80 percent, or something like that—and the higher that ratio is, the nearer you get to benefits that are almost as great as earnings when in employment. On the other hand, if you have universal children's allowances it is much easier to have benefits which are about 50 per cent of wages; and that is a reasonable thing to control. It makes much more difference between being normally earning and being in receipt of benefit.

The third point—and I wish to stress this very much—is that we must remember the bias of the distribution of income. We must remember that the groups most concerned with social insurance benefits are the lower income groups of all countries, and that group may be 20 to 25 per cent of the total, or it may be less; it could be very large. That group has the largest proportion of possible dependency. We know that unskilled groups, for instance, are more subject to unemployment, and that will be the truer the more full employment we have, because the problem remaining will be casual employment. And that is the group which, generally speaking, has the largest families. In social insurance we must give special attention to low income groups. That is why social insurance is different from private insurance which is chiefly concerned with the higher income groups. And in the lower income groups the large family is a big problem.

I should like to add one more point which is perhaps something new. I want to suggest that the principle of children's allowances as an integral feature of a comprehensive system is more important than the actual amount of benefits. The principle can be established with a quite small children's allowance, something, let us say, of the order of 4 or 5 dollars per month—as little as that. Now what does that mean? Compared with what can be done by tacking on children's allowances to unemployment insurance, it is more adequate. You can do a better job because you are limited in what you can tack on for children's benefits in unemployment insurance; you are completely frustrated from doing anything effective for the large family because you cannot possibly gear up your benefits sufficiently to take care of all the children. I want to emphasise again that the interesting thing about accepting the principle of children's allowances in the structural sense is that the allowance can be very small, it may even be restricted to 5 or 6 children—though I am not advocating that, I do not believe in that—but you can still do an infinitely better job in that way in relieving poverty than you can by any attempt to get at it through the back door, by tracking on a children's provision to your various units.

Mr. WATSON. I think the correction that was made here was not made correctly. You have placed allowances for children at all times under insurance. Now, I do not think children's allowances ought to be classed under insurance

at all. They should be financed out of taxation. I think that this paragraph 315 should be divided into two separate items. I think Mr. Marsh's position is correct, and I would say that even if the benefit were reduced a great deal below what he suggested, it would still be the right approach. I think I can offer convincing proof of that. Those of us who make up our income tax returns will find that there is, for incomes under \$2,000, an exemption of about \$28 for each child; I think that is very acceptable. It seems to me that even an extremely small children's allowance would be very acceptable in the economic system; even \$2 a month would be like the coming of the millenium to many poor families in this and other countries. I think we should avoid putting the figure high, because if the children's allowance is set at a high figure, everybody will be terrified of it. It should be set low in order to avoid people being afraid of the financial implications.

Mr. PIGEON. I wish to say a few words about the question raised by Mr. Watson respecting the inclusion of children's allowances by the insurance method at all times. I cannot agree with him that children's allowances may not be given by means of the insurance technique. He seems to think that children's allowances at all times have got to be given by categorical assistance, I take it irrespective of means. Now, I do not agree that children's allowances may not be given, even if at all times, through the insurance technique. Of course, it is true that at the moment at which we are establishing children's allowances, the situation of each individual with respect to family size appears to be rather fixed but we can take a much broader view of the situation. We may consider individuals as they stand at the time when they start being usefully employed by society, and I think we may consider that their risk of having a family or of not having a family, and of having a large family or a small family, is a risk which can be insured against by means of the social insurance technique. Therefore, I feel it is quite proper that the insurance method be considered and contrasted with the assistance method for family allowances.

Mr. WATSON. Technically, Mr. Pigeon is quite correct, but in practice, I think it is not the proper way. You might as well think of putting the public schools and education generally on an insurance basis, as of putting children's allowances on that basis.

Mr. FALK. I should like to add one point. It is very evident that, depending on the circumstances of one country or another, the arguments for the adoption of children's allowances may be stronger or weaker. I think that is the essence of the points made by Mr. Altmeyer and Mr. Marsh, respectively, namely, that children's allowances may be highly desirable in many countries, but may not be necessary in others, in order to have an adequate social insurance system. The reasons set forth by Mr. Altmeyer indicate how the arguments apply to the introduction of children's allowances in the United States.

There is one other consideration which I think has been very largely neglected in the discussion of children's allowances, namely, the economic consequences of establishing a system of this kind with regard for the method by which the funds for paying these allowances are raised. It has been the practice in most discussion since the appearance of Sir William's report to think in the terms that obtain in Great Britain. We in the United States have made some preliminary estimates of what the cost might be for a system of children's allowances with one or another set of specifications, having regard for allowances at different levels, for the exemption or non-exemption of the first, second, or third child, and so on. We have made some tentative estimates of the cost and then have considered what the impact of that cost would be, according to the method of taxation by which the moneys involved were raised. In a situation such as obtains in the United States, where the national revenues in peace time are by no means raised wholly by progressive taxation, the cost of a system of children's allowances could be met by taxation of such a kind as to increase the levels of poverty or the levels below subsistence for large proportions of the persons who are intended to be helped by a system of children's allowances. I would, therefore, emphasise only this one point: that any discussion of the wisdom of establishing a system of children's allowances is incomplete unless great attention is given to the impact of the methods of taxation by which the funds are to be raised.

Mr. SARATVA. We must distinguish between objectives and methods. It is undeniable that provision must be made for meeting the needs of large families. As Mr. Marsh has said, we must remember that, however high the wage, it will no longer suffice once a certain number of children is exceeded. Mr. Altmeyer has made clear the relation between child maintenance and insurance. As a

rule, insurance is intended to cover risks: the children's benefit, however, is a constant payment, but even so, it might be possible to provide it by the insurance method. In North America especially insurance has a very extensive field. I would not give advice on how things should be managed in other countries, but in Brazil we count upon financing children's allowances out of the proceeds of special taxes on bachelors and childless couples, etc. I think that we should agree simply as to the expediency of completing an insurance system by children's allowances, based either on insurance or on assistance, as seems best in each country.

Mr. MARSH. You may want to close your discussion on this, but if not, there are two points I would like to make. On this matter of cost, as far as one can judge from a very inadequate estimate, the amount of income that in effect is given back to families in income-tax allowances in Canada—that is, taking both of the allowances that are made under the two forms of income tax—is of the order of \$108 a year per person for one child. The total amount that is involved is of the order of \$100,000,000 or \$120,000,000. That amount, as it happens, would be enough to finance the most limited scheme which would yet be acceptable, a scheme which would pay for up to six children but would pay the allowance for the first child only when the family was drawing benefits. This minimum type of children's allowances at a low rate, which would nevertheless be very much better than nothing, could be financed in Canada with very little change in actual taxation. It could almost be done by simply amending the income-tax regulations, abolishing the children's exemption, and paying all children's allowances at the minimum rate.

The second point—I want to make it very simply, but it is an enormous point—is that I think the real implication of children's allowances is not the fact of children's allowances at a very low rate; the real implication for persons concerned with social security in the widest sense is that children's allowances can be put into practice effectively only if there is an intensification of all the other services relating to child welfare. I think that this implication is so important that I take the liberty of emphasizing it. The real importance of children's allowances at the lowest rate and with the most restrictions, is that they immediately give an impetus to all kinds of child-welfare services, an impetus which we desperately need.

Mr. REBAGLIATI. I wish to offer the experience of my country on this whole problem. In conformity with our Constitution, the Government is responsible for the protection of the family. Social insurance is responsible for the protection of the children of insured persons. This system cannot be altered. It is our intention to develop, in the strongest possible way, the collaboration which exists in Peru between insurance and assistance. In almost all countries it is the insurance scheme which seeks to obtain from the public medical establishments facilities for the care of its members. In Peru the situation is just the opposite. The insurance scheme has suggested to the State that the latter should make use of its organisation in order to provide maternal and infant welfare services and treatment of tuberculosis, syphilis, etc. The Peruvian Government has taken up this suggestion and has issued a decree coordinating the treatment provided by assistance and by insurance respectively. This is an interesting solution of the problem of protection for the family because it shows what is the duty of the State and how that duty may be carried out.

Mr. COHEN. I think the discussion has tended to place too much emphasis on the point of cash benefits, whereas 315 (a) (ii) mentions a very important point that has been overlooked—benefits in kind. There has been a good deal of study given to the matter of the benefits in kind which would be of special value to families, and I should like to mention just a few of those, because in those countries where cash benefits for children may not be advisable for one reason or another, various activities are already under way, which contribute to the protection of children in the family.

Of great importance, first, is a whole development of child-welfare services, especially where a high cost is involved, such as in the care of crippled children, or those suffering from tuberculosis, or other defects. Secondly, we in the United States, for instance, have developed a system of free school lunches for children. These are of great importance from the nutritional standpoint as well as from the standpoint of relieving the family of the particular cost. Also of interest is the provision of nursery schools, both for mothers who have younger children at home and for working mothers, which permit them to go out and earn income, thus increasing the family income as a whole. The extension of educational services which has been going on for a long time has come

to cover special costs which were not originally considered as part of the public education costs, such as the transportation of children to school, the provision of free books and other materials, and the organisation of vocational and special schools to give occupational training to children.

Finally, I should like to emphasise the point Mr. Falk made. Some of our thinking is along the line that a great step forward can be made in connection with children in the family by a comprehensive and intelligent revaluation of the tax system. A system of regressive taxation bears down upon the low-income groups, particularly, and unless we consider this as part of the whole programme we may be taking with one hand to give away with the other, and doing nothing but increasing administrative expenses.

The CHAIRMAN. We have had a very fine discussion on this very important point. I think, with your permission, we should now go ahead. My own conclusion, after listening to the rather varying viewpoints that were raised is that the drafting experts will require great care and circumspection to draft anything which will obtain universal acceptance. I think this is one problem on which we cannot afford to be too dogmatic at the present time.

Mr. STEIN. The Office is very grateful indeed for all that has been said, and it will be recorded very carefully. I think we should, on behalf of the I. L. O., issue a special report on family allowances. It is a very important question. Experiments have been made in New Zealand and Australia which are not, perhaps, sufficiently known. Moreover, many European countries have recently introduced family allowances on an insurance basis. We could issue a factual report about the present stage of legislation on children's allowances.

Mr. ALTMAYER. I should like to suggest that when that study is made, this basic point be kept in mind: what we are striving for is the elimination of destitution. These *a priori* arguments that have been advanced pro and con do not get us very far along the road. We need factual data applying to particular countries. If the facts indicate that destitution due to large families is a serious problem, and if other more fundamental approaches, such as programmes for minimum wage, housing, nutrition, education, and universal health do not meet the need, then we must devise ways and means to meet the residual need through cash benefits, or benefits in kind, directly related to the size of the family. But I think we must not make a decision on a matter such as this, except on the basis of facts concerning the relative importance of interruption of income and size of family causing destitution. The facts have not been established in connection with children's allowances in each country—certainly not for the United States.

The CHAIRMAN. We shall proceed to 316, which is as follows:

Extension of Contingencies Covered

METHODS (CONTINUED)

316. Unemployment. *In case of lack of opportunity, for persons capable of work, to earn one's living in some occupation that one is fitted to follow:*

- (a) *Payment of benefit until:*
 - (i) *work in suitable occupation is offered;*
 - (ii) *if no near prospect of such work, until fitted for another occupation and work therein is offered;*
- (b) *Work to be offered may be:*
 - (i) *employment;*
 - (ii) *self-employment, e. g., farming;*
- (c) *By insurance for persons normally employed:*
 - (i) *for limited period;*
 - (ii) *for unlimited period;*
- (d) *By categorical assistance, subject to needs test, for persons genuinely seeking work not receiving insurance benefit.*

Mr. FALK. May I ask a question? Is there some specific reason why no reference is made in this paragraph to public works programme with reference to the offer of work? Is it intended to use terms which are all embracing, applying to other classes of work, or is it an oversight? Here is an occasion where a social security provision with respect to unemployment appears most directly related to the development of work in connection with the public works programme.

Mr. STACK. In this report we have not dealt with the economic means of preventing unemployment or reducing it. As you will notice in Part V, we have

only mentioned employment services. We did not believe that we were sufficiently representative here of labour departments, trade unions, and employers to deal with this subject. Naturally public works ought to be considered in connection with the problem of unemployment, but we are thinking of the most general conditions and circumstances in which benefits ought to be payable. For example, in 316 (a) (1) "work in suitable occupation is offered," employment on public works, might, for certain people, come under that heading, but of course you would not expect a lawyer or a doctor to take part in road making. It would hardly be a suitable occupation for him.

The CHAIRMAN. Is there any further discussion?

Mr. WATSON. With regard to unemployment benefit, I am not sure that benefits could be continued indefinitely. Training would not be for an indefinite period. Certainly if a reasonable period were allowed for training for some position, I think the benefit would have to be curtailed sometime. I mentioned the other day the effect on sickness benefit, where, in 1927 a study was made and it was found that 50 percent of those who went on reduced benefit found work in a week. I think we must pause before suggesting unlimited unemployment benefit.

Dr. HEAGERTY. I presume Mr. Watson will make an exemption for persons who are prevented from finding work because of invalidity.

The CHAIRMAN. Is there any further discussion on 316? If not, we shall proceed to 317, which is as follows:

Extension of Contingencies Covered

METHODS (CONTINUED)

317. Unemployability. *Extension of notion of invalidity to include involuntary unemployability, i. e., working capacity so reduced that employment services see no prospect of regular work in any occupation, even after retraining.*

Mr. SARAIVA. I would like to have the French translation of this word "unemployability", because I do not get it very well in my own language.

Mr. STEIN. It does not sound any better in French, than in Spanish or English.

Mr. SARAIVA. Would not that be total invalidity?

Mr. STACK. The word "unemployability" is used here not as a substitute for the usual term "invalidity", but in order to draw attention to the importance of defining invalidity in such a way that account is taken of the real employment possibilities of a person whose working capacity is reduced, so that when assessment of invalidity is made, the man who has been through that assessment does not go away with a statement that he is fit to work in some occupation in which really there is no hope of employment. That is a tragic situation to be avoided.

Mr. FALK. I think it is of the utmost importance that we should be fully aware of the very far reaches into which the principle enunciated here may be taking us. Two or three points deserve special mention. The objective, is, I think, clear. The intent is to remove the anomalies and gaps, which obtain in social insurance as between unemployment compensation and the temporary disability provision. We are all aware that in countries that have both systems of social insurance, they have not dove-tailed. There has been persons who have been found not eligible for unemployment benefits, because by the canons of unemployment insurance they are available for work, but not able to work. By the canons of disability insurance, they are able to work but no work is available. We must recognise that if the objective is to ensure that necessary provision is made against interruption of earnings, the principle is unquestionably sound. In its application—I know we have been cautioned to adhere to principle and not come to the higher or lower level of practical application—we must be sure that if we adopt a principle, we are clear how far it may be carrying us.

In this paragraph we are proposing to make the principles of disability insurance much broader in at least two directions. First, we are proposing to take full account of partial disability, which has hitherto been excluded from social insurance except workmen's compensation. Secondly, we are placing new emphasis on the economic interpretation of disability against the physiological interpretation. Accordingly, in countries in which there obtain systems of unemployment compensation and systems of disability compensation the acceptance of the principle stated here would mean a fundamental revision in the accepted rights, burdens, and administrative implications, as well as of the disability

circumstances, in any circumstances and times in which the opportunities for employment are less rather than more. Now, I would only emphasize that while the basic objective intended here may be completely sound, the consequences of accepting the principle would be very far reaching for the administrative costs either in countries which already have an operating system or in countries which are contemplating some such system.

Mr. RERAGLIATI. In organizing invalidity insurance one of the most serious and complicated problems is to settle the degree of incapacity which gives right to benefit. Some laws refer to total incapacity, while others are content with something less. It may happen that the minimum degree of incapacity prescribed by the law is not present in a given case, but that a worker concerned cannot, with his remaining capacity, earn sufficient on the labor market. Thus, it becomes necessary to extend the notion of invalidity so as to include all cases in which the remaining capacity is so slight that employment and income cannot be obtained. In this connection, an invalid might be defined as one who is not capable of regular work, though not as one who cannot obtain it. If this view were adopted, this meeting of experts would have made a real advance.

Dr. ETCHEBARNE. I do not think we are all speaking the same language. Incapacity, whether total or partial, must be assessed in terms of ability to earn a living wage. This new criterion, which is now gaining general acceptance, is in contrast with the old criterion of physiological incapacity. The loss of an arm means something very different for a doctor and a lawyer respectively. Thus, if we can all agree that invalidity is to be assessed in terms of capacity for work and that provision should be made for covering partial incapacity, there can be no confusion.

The CHAIRMAN. Is there any further discussion on this paragraph? If there is no discussion, we shall pass to 318, which is as follows:

Extension of contingencies covered

METHODS—CONTINUED

318. Retirement. *Possible conversion of old-age pension into retirement pension.*

Mr. WATSON. I spoke on this question to some extent before. My motion is that the old-age pension should be available at a reasonable age, preceded by invalidity pension if that is found practicable, but it should be open to the individual to defer his pension with reasonable increases for deferment. If we have in mind the welfare of the individual himself and the needs of this poor world—notwithstanding all we have heard of poverty in the midst of plenty, it is a world of poverty and not a world of plenty—I do not think we should deny anybody the privilege of working, if he wishes to work and can find work, even though he may have passed the pensionable age.

Mr. MARSH. Just one point. It is obvious that his whole matter of pensions is of direct relevance to postwar conditions, when everyone is thinking of the possible need of helping certain groups to retire from the labor market. An old-age pension is merely a means of income, and it leaves the pensioner the option of working. If that is accepted, there is no real difficulty. If there is a dislocation or lack of opportunity, the pensioner who does not find a job is covered; if, on the other hand, we have conditions of full employment and there is a place for him, it surely should be reasonable for him to retain the pension and yet to earn. If the option is emphasized, rather than any idea of compulsory retirement, I think the difficulty will be overcome.

The CHAIRMAN. Is there any limitation with regard to the quantum of permissive income in the old-age pension in Canada?

Mr. MARSH. There is a very inadequate arrangement in Canada at present, but under insurance arrangements there would be no limit on income.

The CHAIRMAN. Is there any further discussion on that paragraph? If not, we can pass to 319, which is as follows:

Extension of Contingencies Covered

METHODS (CONTINUED)

319. Adaptation of contingencies covered to non-employed.

(a) *Sickness:*

- (i) *as for employed, subject to proof of loss of earnings;*
- (ii) *cases requiring hospitalisation;*
- (iii) *cases lasting longer than, e. g., 13 weeks;*

- (b) *Maternity, as for employed, subject to proof of loss of earnings;*
- (c) *Invalidity, as for employed, subject to:*
 - (i) *proof of loss of earnings, for gainfully occupied;*
 - (ii) *proof of incapacity for service for wife or unpaid adult relatives—helping in home or undertaking of head of family;*
- (d) *Old age—possibility of enforcing retirement condition;*
- (e) *Survivors—as for employed;*
- (f) *Funeral—as for employed;*
- (g) *Occupational incapacity and death—possibility of general accident insurance providing pensions without qualifying period;*
- (h) *Child maintenance—as for employed;*
- (i) *Unemployment:*
 - (i) *insurance for maintenance during necessary training for employment;*
 - (ii) *categorical assistance.*

Dr. ETCHERBARNÉ. It is clear that, if we have agreed to extend the coverage to the non-employed, we must naturally give them the same benefits as other insured persons.

Mr. WATSON. I should like to run through these items; "adaptation of contingencies covered to nonemployed: (a) sickness". I think it is doubtful if it could be applied.

Mr. STEIN. It is applied in New Zealand; we must face the facts.

Mr. WATSON. What they have in New Zealand is not insurance; it is subject to a means test.

Mr. STEIN. That is a nominalistic point. I am sorry, but if the other country has a thing, we cannot say it is impossible. The law-maker is faced with the same difficulty, whether the system is called insurance or not. Where you have such a system, you must reply to the question whether you grant sickness benefit, and on what conditions, to non-employed or self-employed persons.

Mr. WATSON. Under health insurance it would be practicable to collect contributions from self-employed persons and to insure them for a suitable risk. One of these risks, I think, would be hospitalisation. Where hospitalised, I think they could be paid a benefit. It is possible, too, for cases of illness lasting more than 13 weeks. That would probably be well enough defined to provide cash benefits.

Mr. STEIN. May I infer that you want to suppress 319 (a) (i), but you admit (a) (ii) and (iii)?

Mr. WATSON. Yes. I think (b) could be managed well enough but there would seem to me great difficulty in managing (c) on an insurance basis. Under (d), having in mind the views I have already put forward, there would be no reason for enforcing a retirement condition. If the retirement age had arrived and there was a pension, workers could take it or leave it to increase. (e) survivors—that is something that could be insured well enough. (f) funeral benefits—yes, that could be insured. (g) occupational incapacity—that might be very difficult. Death from occupational accident or illness could be handled by insurance. (h) child maintenance—we have already discussed that. I think probably that children's allowances, after death at least, would be manageable. (i) unemployment—benefits for the non-employed would present very great difficulties. I think probably they would generally be found almost insuperable.

Mr. STEIN. May I be allowed to say just this? I hope Mr. Watson finds my questions not impertinent but pertinent. It is all very well to express doubts about the possibility of application, but we have to list the problems and we have to list the solutions which already exist in many countries. I will show just one example. You said "occupational death", yes; occupational incapacity for work of non-employed persons, no". There are countries where not only farm hands but all farmers are insured against accidents, and it works perfectly. It seems to me that the psychological condition for full success of workmen's compensation is that it should say to the farmer "not only do I want you to pay contributions for farm hands, but I will insure you and your family members who are helping. That works in very many countries. We believe that on this continent much progress will be made by this extension of accident insurance or workmen's compensation to independent workers in agriculture.

Mr. MARSH. Just one point: it is my habit to ask what is the postwar implication. I want to at least underline the importance of considering point (i), "insurance for maintenance during necessary training for employment." We

know a lot more about the labour market and the labour force than we used to. We are aware of the enormous number of people who are drawn into the wage-earning market in periods of full employment, and we know that we have to face an enormous occupational changeover at the end of this war. There must be hundreds of thousands of people on this continent who would be willing to consider the possibility of paying a contribution which would give them the opportunity to get training for another sort of job during the next few years.

The CHAIRMAN. Is there any further discussion on this paragraph? If there is no further discussion, we shall proceed with 320 which is as follows:

Extension of Contingencies Covered

METHODS (CONCLUDED)

320. Qualifying period. *Payment of contributions (or formal exemption) required for certain period before contingency:*

(a) *In the case of contingencies against which all citizens are insured, throughout period since cessation of indirect insurance through head of family;*

(b) *In case of contingencies against which section only of population is insured:*

(i) *sickness of employed—nominal period;*

(ii) *unemployment of employed, several months;*

(iii) *occupational incapacity and death—no qualifying period.*

Mr. WATSON. I do not understand (a).

Mr. STACK. The qualifying period is necessary only to exclude bad risks. When you have a national system of insurance, which, in principle at any rate, covers everybody, there is no problem of people passing in and out of the occupational group which is insured. They are insured the whole time; they ought therefore to pay contributions for the whole time. They should pay contributions for the whole period from the time when they cease to be dependent on their parents until the age at which they become entitled to an old-age pension. Of course in periods of sickness or unemployment they will need to be formally exempted from the obligation to pay contribution, but apart from those short exemptions, they should be expected to pay contributions for the whole period.

Mr. FALK. I am not quite sure that I understand the intent of the headings, but if I do, I would ask whether, in paragraph (b), in addition to the various groups enumerated, there should not be a fourth covering eligibility for non-occupational accident and death. It would seem to be necessary to have a considerable qualifying period with respect to the long-term risk of nonoccupational incapacity and in connection with the survivors of workers who die from non-occupational causes.

Dr. HEAGERTY. I am in agreement.

Mr. STACK. I thank Mr. Falk for his suggestion which I think refers to an important omission.

Mr. FALK. May I suggest an amendment? Dr. Heagerty points out that the qualifying period should not be the same for the nonoccupational incapacity and the nonoccupational death. For death it might be a nominal period or a little more, but for the nonoccupational incapacity, it will have to be a considerably longer period.

Dr. HEAGERTY. Mr. Falk dealt with the qualifying period in the case of contingencies against which all citizens are insured, and that brought to my mind the question of immigration into this country after the war. I have here a statement which is extremely interesting. If it won't take too much time, I would like to have the privilege of reading it. This section of my report (p. 183) deals with population:

"In summarising this demographic data, several important facts of primary significance with respect to problems of supply and demand for medical and hospital services seem to emerge from an analysis of this chapter."

This is the point now:

"* * * that the rate of population growth in Canada over the last twenty years has been decreasing rapidly, from 34.17 per cent in the decade 1911 to 1921, to 18.8 per cent, in the decade 1921 to 1931, and to 10.9 per cent, in the decade 1931-1941; and that the declining rate of population growth in Canada is due to (a) the elimination of immigration for the most part from European countries, and (b) the decline in the rate of natural increase."

Now the decline in immigration is tremendously important. The immigrant who comes to Canada does not acquire citizenship until he has been in the country for some considerable time, and it is a question, therefore, whether during that period he is entitled to insurance or not. If he is not, we have on our hands a tremendously big and important problem. Perhaps Mr. Stein has an answer to this question.

Mr. STEIN. If you refer to medical care, that is not under discussion. You must in all cases provide benefits in kind; in paragraph 406 there is no question of citizenship or anything of the sort. For benefits in cash the problem is much more complicated.

Dr. HEAGERTY. Yes, I agree with you. We wish to provide benefits in kind for all citizens; I had assumed that that meant people in Canada. If we cannot provide those new immigrants with those new social security benefits * * *.

Mr. FALK. I wonder whether we can recall the happy phrase which Mr. Cohen suggested in yesterday's discussion on this point, and where the term "citizen" occurs, replace it by the term "member of the community."

Mr. PIGEON. Should we not require some qualification of paragraph (a) in order to provide for this class of immigrants? It is not enough to use a general word instead of "citizens," implying the intention to cover all persons who are members of the community. I think it should also be made clear that in the case of insurance covering all members of the community, some provision will be made for a limited qualifying period to cover immigrants.

Mr. STEIN. I do not think we should mention immigrants here. It would mean, not only giving immigrants permission to enter the country, but also a specially advantageous status under the insurance scheme. This status could easily become a *privilegium odiosum*. The problems of migrants must be settled by agreement, and many reciprocity treaties exist under which periods of contribution in one country are recognised in another. This comes up under Part VI.

Dr. HEAGERTY. The Provinces also have certain rights in regard to immigrants. It takes a year, I believe, for them to acquire residence.

The CHAIRMAN. The time for adjournment has now arrived. We have had a wonderful debate this morning. I think it was on a very high level. This afternoon we shall be back here at 2:45 and we shall have at 2:40 a medical subcommittee under the chairmanship of Dr. Etchebarne, which will meet to pre-examine Part IV of the agenda and report orally to the plenary consultation tomorrow morning. I would suggest, for the subcommittee, Mr. Perrott, Dr. Heagerty, Dr. Grove, and Mr. Falk.

The meeting rose at 12:45 p. m.

FIFTH SITTING, SUNDAY, 11 JULY (AFTERNOON)

The meeting opened at 2:50 p. m. Mr. Ian Mackenzie was in the Chair.

The CHAIRMAN. We take up the subject of Benefit Level of which the first paragraph for discussion is 322.

Benefit Level

OBJECTIVE

322. Benefit level. *To assure maintenance benefits:*

(a) *Sufficient to cover current cost of decent living—food, clothing, shelter;*

(b) *Taking account, with respect to short-term benefits at least, of previous earnings of beneficiary.*

Mr. WATSON. I will offer these comments to start with: Test (a) is a very difficult one to apply in practice and there is likely to be some conflict between the two tests. Some years ago there was some discussion in the actuarial society concerning adequate benefits in social security; a number of actuaries in the United States said that they had made some inquiries in their own country as to what was an adequate salary, and the nearest they could come to it was double what an individual was getting at the time. The problem is complicated by the presence of dependents, more particularly if there is no children's allowance. If there is a children's allowance that is half adequate, it will simplify the matter a good deal, but it will have to be a compromise.

Mr. SARAIYA. Where it says, in (a), "sufficient to cover current cost of decent living," the expression "decent" is rather vague. I would say "the cost of vital necessities, food, clothing, shelter." It is perhaps a question of words.

Mr. STEIN. Is not "decent" better than "vital"? Because "decent" includes a relative level—what is considered decent at a certain time in a given country—whereas "vital" means the physiological necessities. To me "decent" is more than "vital."

Mr. ALTMAYER. If I may say so, I think that Sir William Beveridge and Mr. Marsh and all the gentlemen who proceed upon the assumption that there is such a thing as a minimum of subsistence level are not taking into account the administrative difficulties of translating that concept into numerical terms. I think one of the reasons is that it is not a physical concept, but a sociological concept, as Mr. Stein has just indicated. The minimum of subsistence as applied to human beings, with souls and spirits, is a quite different thing from a minimum of subsistence as applied to your dog. You know that you can take care of a dog with a certain number of units of food but you cannot take care of a human being that way.

Mr. SARAWA. When you say "vital," you take into consideration human conditions, of course, but if you asked a millionaire or a lord if it was a decent living to live in one room, perhaps he would not think so. You see, "decent" implies habits. And if you ask a boy living in Iceland if he would like a better place, he will just say, "No." He will think what he has is decent. So I think we are in the realm of a moral or ethical expression; calories are not enough.

The CHAIRMAN. The question has arisen as to whether the word "decent" is appropriate.

Mr. MARSH. May I offer two comments. The first is on Mr. Altmeyer's statement. I do not want to defend my own work, but I think a careful reading of my report will show that I have not accepted some ideal or vague standard at all; on the contrary, I have been at great pains to point out the difference between benefits of more or less temporary duration and long-term benefits, and I have conceded that for temporary benefits one has to accept the wage level which means that in many cases the benefits are quite indefensible by any standard at all. The second point is more general. We have to remember that, speaking practically, when we are talking of social-insurance benefits, we are all the time making comparison with assistance benefits. Whether they are justifiable by any standard or not does not matter. The fact is that we do expect insurance benefits to be better than assistance benefits.

Mr. ALTMAYER. Even if they are long-term benefits? Why do you expect them to be better?

Mr. MARSH. Because otherwise, social insurance has no superiority at all.

Mr. ALTMAYER. I should like to make one further comment on Mr. Marsh's comment on my comment. That is that we have avoided the problem when we say that we distinguish between short-term and long-term benefits, or we distinguish between social-insurance benefits and public assistance benefits. In all of these there is something more than the calorific value of this, that or the other food, and the covering quality of this, that or the other kind of cloth and the rain-shedding qualities of this, that kind or the other kind of roof. We have implicit in our determination of what is a minimum of subsistence an assumption which is something more than a physical assumption, when we decide what the scale of benefits should be, or what the amount of assistance rendered in a particular case should be. It is a sociological assumption that decency requires that no human being shall fall below this level. This level involves such things as how closely you shall herd individuals together, how much they shall be allowed to live as family units, and a great many things like that that are not absolutely necessary for keeping the human body as an operating mechanism, but are necessary as we see it for keeping body and soul together, the soul being the thing which distinguishes it from a physical concept.

Mr. MARSH. Before that is translated, I should like to know whether Mr. Altmeyer is arguing for such a minimum or against it.

Mr. ALTMAYER. I am pointing out that while we all accept the concept of a minimum of subsistence we should not fool ourselves into thinking that it is something that is very objective. It is a goal that should actuate us in our determination of the level of benefits, true, but in my opinion, in a country with wide variations in the standard of living, the concept of what constitutes decent living is not very valuable as an administrative device. It is valuable as a social device to orient our thinking, but people who have not been in the administrative end may assume that they have found the answer, when as a matter of fact they have just left with the administrator something which is still quite undetermined.

Mr. STEIN. It is a dynamic conception.

Mr. ALTMAYER. That is right.

The CHAIRMAN. Is there any further discussion?

Mr. WATSON. Mr. Marsh explains that if insurance and assistance are too close in amount, insurance loses its value. I do not think that this is so. One of the main things about insurance is that the benefit is obtained as of right, without any question of means; even if the insurance benefit were actually less than the assistance benefit, it would be justifiable. The person receiving insurance would be expected to build up something additional out of his own resources.

The CHAIRMAN. Is there any further discussion? If not we shall go to 323.

Benefit level

OBJECTIVE (CONTINUED)

323. Wage graduated or flat benefits.

(a) *Insurance benefits varying with previous earnings are indicated especially:*

- (i) *where wide differences exist in standard of living among occupational groups or areas;*
- (ii) *for temporary suspension of earnings;*
- b) *Benefits at subsistence rates may be preferred:*
 - (i) *where standard of living of wage earners is fairly uniform;*
 - (ii) *where unskilled wages are substantially above subsistence minimum;*
 - (iii) *where highly developed and extensive facilities for supplementary voluntary insurance exist;*
 - (iv) *for permanent loss of earnings.*

Mr. MARSH. I should welcome a word of explanation about (b) (ii).

Mr. STACK. It is generally admitted that insurance benefits must be somewhat below the actual wage. Therefore you cannot establish benefits at a subsistence minimum unless the unskilled wage is somewhat above it. That does not apply to the permanent benefits, of course, because once a man is finally out of the labour market, the danger of abuse either disappears or becomes smaller.

Mr. COHEN. In (a), you say: "are indicated especially," but in (b) you say "may be preferred." It is a little bit confusing as indicating some delicate shading of meaning.

Mr. STEIN. The intention is to accord a general preference to wage-graduated benefits, but to recommend them especially in cases (b) (i) and (ii). In (b) due recognition is given to the circumstances which, in Great Britain and the Dominions enable flat benefits to be adopted.

Mr. WATSON. I am not sure that 323 (a) (ii) is very satisfactory in its present form. I am not sure that it is particularly obvious why insurance benefits should vary with previous earnings where the suspension is temporary. Of course temporary suspension may mean a long time; take unemployment—that might last six months or a year. Would that be a temporary suspension? Or would you apply the temporary suspension rates for a month or two months, and after that, fall back on something else? I think in practice you have to have pretty much one rate that will apply, and perhaps after the lapse of a considerable time, the rate of benefit, might, like sickness benefit in Britain, be reduced.

Mr. REBAGLIATI. For us in Peru and probably for most of the peoples of Latin America the system of wage-graduated benefits is preferable. Moreover, in order to compute benefits at subsistence rates on the Beveridge model, it would be necessary to undertake very extensive inquiries, as has been done in England, in order to determine the various elements entering into the cost of living: rent, food, fuel, etc. In my country we should need about twenty years to do anything similar. We lack a skilled personnel: our economic development is in full swing and labour phenomena are continually changing. In 1939 we made a census of the insurable population in a certain area and found only 50,000 persons. When our scheme went into operation there in 1941, they already numbered 100,000. But, while I prefer wage-graduated benefits, I do not suggest that, because the other method does not suit us, it would be unsuitable everywhere.

Mr. SARAIVA. I want to make a comment on Brazilian experience. We are finding that in our new plan we can get both systems—a minimum subsistence rate, and over this minimum, variation proportionate to previous earnings. We had quite a good fight over this alternative and at the end we discovered that we

could have both terms. I would be very happy if the report might link those two parts together: it is important in some local conditions; I confess it would give me great force against my opponents.

Mr. REBAGLIATI. I want to insist once again on wage-graduated benefits. We have in America many social insurance schemes in which the benefits comprise the basic minimum, itself related to wages, and supplements calculated in different ways. I am not satisfied with the indication given in 323 (a) (i). I beg for the support of the experts so that what has been established shall not be destroyed. I suggest the following wording as being satisfactory to us and expedient: "Where benefits, calculated on an adequate minimum, are regulated in proportion to the variation of wages."

Mr. SARAIVA. The two methods are not mutually exclusive. On the contrary we think it advisable to fix a minimum of subsistence, supplemented with benefits proportional to wages, as we intend to do in Brazil.

Mr. MARSH. Could I make a comment on this temporary suspension of earnings to which Mr. Watson referred? I do not profess to understand the full implications, but two points seem to me to be very important, and I should like to see what reaction there is to them.

The first point is that unemployment insurance benefits must be temporary if we are to believe what we are talking about. If we believe that there must be other methods of securing employment when normal methods fail, then after benefit has been continued for some period there must be other solutions. That is imperative to the modern concept of unemployment benefits. There must be programmes for occupational training. Surely the only hypothesis on which we can offer unemployment insurance in the future is that it is a temporary transitional arrangement.

The second point is that, if that basis is accepted, there is a strong, almost an unanswerable case for graduated benefits, because then you say that the implication is that the wage earners concerned have a stake in their particular standard of living. The railway conductor who is unemployed has a right to a somewhat higher level of benefits than, let us say, the semi-skilled man, because he assumes he is going back to that same occupation. That may or may not be most desirable in the absolute sense, but it is necessary in the practical sense.

Mr. ALTMAYER. Mr. Marsh's explanation of the classic difference is classic in itself. I mean that all of us have made the same argument between benefits for temporary loss of earnings and permanent loss of earnings. I have sometimes wondered whether we have argued from a foregone conclusion based upon practical considerations to a rationale which will satisfy our sense of fitness and neatness of reasoning. That is to say, we all know that there is a tremendous cost involved in paying benefits for old age, particularly if retirement is not required as a condition for the receipt of benefits, and for permanent disability, and we get frightened at that cost, and therefore we tend to keep the benefits for those long-run risks as low as possible. In the case of the shorter-term risks, however, we feel that we can be a little more liberal without running too grave risks, and the actuaries are not so concerned when they see that it is a current cost that will hit us in the face right away. But, just because we want to live at peace with our conscience and our sense of reason, we draw that distinction that you make; I do not know that it is a valid distinction. As a matter of fact you might make the counter argument that the shorter the term of loss of earnings, the more able is the wage earner to bear a part of that loss out of his accumulated savings. The longer the loss of earnings continues, the less the possibility of the person meeting it out of his own earnings. There are arguments both ways.

Mr. STEIN. Certainly, Mr. Altmeyer, it is possible to argue both ways. We discussed last year in London with Sir William for two hours whether the benefit level should progress or decrease. Both positions are defensible. But I would point to one fact: the Nazi legislation in this respect. Germany has had 40 or 50 years of experience in this matter. They have sickness insurance and invalidity insurance; in both cases they have graduated benefits. The sickness benefit is slightly higher than the invalidity pension, but both are strictly speaking wage-graduated benefits. Since 1940, they have had a new rule as to the duration of the sickness benefit: sickness benefit is paid during 52 weeks—but, if, after the expiration of 52 weeks, the doctor says that there is a probability of early employability in the previous profession, then the sickness benefit is maintained beyond 52 weeks. That is the reverse of the unemployability definition. It should be the ambition of a temporary benefit scheme to maintain the man employable in his previous profession and not to allow him to go down.

Do you see the point? It is very important for the man and for society. It is one example of the progress made in 50 years in those graduated schemes. It answers Mr. Watson's point. It is an essential criterion—employability in the previous profession. Here is the assumption: We cannot expect a man who is sick to change his quarters and other commitments involved in his mode of life. If he knows he is definitely retired, he may go from a big town to a small town. He may reduce his expenses and adapt his living standard to a new situation. I believe that for that reason, on the whole, the argument is not 50:50; it is about 45 to 55 for letting the benefit go down slightly in cases of permanent or quasi-permanent disablement. Do you admit the argument?

Mr. ALTMAYER. I admit it, because I use it and it is the only thing that salves my conscience, so I am glad to agree.

Mr. REBAGLIATI. I wish to refer to an important problem, which, however, has not yet arisen in Peru, since the insurance scheme has only been working for three years. It seems to me that a new risk is coming into existence in invalidity and old-age insurance. It is the risk of the insufficiency of the benefit: a benefit which, when first calculated, was considered as sufficient, ceases to be so as the result of an increase in the cost of living. In New Zealand, I believe, provision has been made to deal with this possibility. There is a Chilean bill, too, which has provisions on this point. Could we devise a formula for determining the necessary supplement?

Mr. STEIN. I wonder whether Mr. Rabagliati has seen where he is going with this formula; it may go far beyond what he has in mind. Does he mean that in 1945 he will adjust benefits granted say in 1940 to the wage level of 1954?

The CHAIRMAN. If there is no further discussion, we can go on to paragraph 324, which is as follows:

Benefit Level

OBJECTIVE (CONTINUED)

324. Benefit and needs. *Insurance benefit may be adapted to needs of beneficiary and dependents, without exceeding previous earnings by:*

- (a) *Fixing general minimum wage above subsistence level for married couple and possibly one child;*
- (b) *Providing allowances for all children, possibly excepting the first, throughout age of dependency;*
- (c) *Raising proportion of benefit to previous earnings:*
 - (i) *for married beneficiaries;*
 - (ii) *where earnings are low;*
- (d) *Supplementing insurance benefit by assistance benefit subject to needs test and possibility to special behavior conditions.*

Mr. REBAGLIATI. Proper recognition must be given to wage-graduated benefits. Otherwise people may be telling us in Latin America tomorrow that our method is not technically adequate. We must adopt a clause which will protect us from this, for the work of this meeting should be constructive by all means.

Mr. SARAIVA. We are faced with this trouble: Our pensions granted in 1925 or 1930 are out of line with every possibility of living on account of an increase of more than 60 per cent in the cost of living. It is a very serious social problem to which Mr. Rebagliati is drawing attention. We are feeling it very keenly, and should be very glad to some counsel.

Mr. STEIN. See paragraph 525 (c) (ii).

Mr. COHEN. I am not clear whether in 324 (a) you mean fixing a general minimum wage under labour legislation or a minimum wage under the insurance system. Secondly, in (d) it seems entirely out of place to add the words "and possibly to special behaviour conditions", since the question here is entirely one of amounts and not the conditions attached to the benefits. If you add that phrase here, I think you have to put in those words "and possibly to special behaviour conditions" throughout the report wherever you use the needs test.

Mr. STACK. Paragraph 324 (a)—general minimum wage—is merely put in for logical completeness; a social insurance scheme which can count, as in Brazil, on a pretty good minimum wage law is in a very good position.

Mr. SARAIVA. But our law covers only the individual and not the whole family.

Mr. STACK. Then as regards (d)—special behaviour conditions—the point there is the word "special". The conditions for the receipt of supplemented benefits would be different from those of unsupplemented benefits. I think it is indicated

in the Marsh report that one of the ways of dealing with the problem of people who cannot earn a minimum wage—the only thing that you can do about it really—is to concentrate on those individuals a whole battery of social services and try to work them up to the point where they can earn enough.

Mr. COHEN. In that case the word "behaviour" is a little misleading. I think you can select a better word: I would say something along the lines of "special services". To me, "behaviour" connotes some moral factor, something along the lines of the New Zealand scheme.

Mr. STACK. Where a person is not capable of earning the minimum wage, then, as the Marsh report proposes, it is necessary for his case to be taken up by the various competent social services in order to train him for an occupation in which he can earn more, or to improve his health, and in general to remove the causes of his inability to earn the minimum wage.

The CHAIRMAN. If there is no further discussion, we can proceed to paragraph 325, which is as follows:

Benefit Level

OBJECTIVE (CONTINUED)

325. Current insurance and savings.

(a) *Advantage of savings element in pensions:*

- (i) *conforms with prevalent feelings of individual equity;*
- (ii) *affords inducement to regularity of contributions;*
- (iii) *avoids heavy cost in initial years;*

(b) *Defects of savings element:*

- (i) *invalidity and survivors' pensions in respect to insured persons at younger and middle ages often below subsistence minimum;*
- (ii) *savings element cannot be equitably and systematically adjusted to changes in cost of living;*

(c) *Current insurance:*

- (i) *relates pension to recent average earnings of beneficiary;*
- (ii) *enables pension to be adapted to cost-of-living changes supervening after pension award, assuming that active population and even each earnings group, supports currently its retired members;*

(d) *As compromise may be recommended pension with:*

- (i) *substantial insurance element, sufficient in most cases for subsistence and adjustable to current cost of living;*
- (ii) *relatively small increments.*

We will take it paragraph by paragraph. First of all, are there any comments on 325 (a) with its three sub-heads?

Mr. REBAGLIATI. The adjustment of pensions to the cost of living is dealt with in a later paragraph.

Mr. WATSON. I should like to comment on the last item in (a)—"avoids heavy costs in initial years". I do not quite understand that. It seems to me rather the reverse of what is intended. If we have a savings element it would be intended that that savings element would provide the cost of a pension for the particular individual who has contributed. Now if that is so, I do not see how it would avoid heavy cost in initial years. If, on the other hand, the money that ought to be reserved for providing the pension is thrown into the pot and used for current finance, it will seemingly reduce cost in early years. Is that what is intended?

Mr. STEIN. Exactly.

Mr. WATSON. I should like to register objection to that method of finance.

Mr. STACK. Then you must speak before the United States Congress.

The CHAIRMAN. Let us pass to 325 (b) and its sub-headings.

Mr. COHEN. It seems to me that the problem of old age has been omitted there, because it speaks only of invalidity and survivors' pensions, and says specifically "at younger and middle ages". One of the great defects of the savings element with respect to old age is that for those individuals who are already at the upper age limits it would be impossible to give them a subsistence minimum, so that either (i) should be revised to incorporate old-age pensions or a separate item should be added for old-age pensions.

Mr. STACK. The plan of discussion really contemplates a scheme in full operation. The transitional case to which Mr. Cohen refers is, however, mentioned in 329 (e) (iv).

Mr. COHEN. I should like to say a word on that point, because that confusion has come up in my mind and in other people's minds several times.—this analysis is a fully matured system operating without any transitional problems.

Mr. STEIN. We have pointed out the transitional problems elsewhere.

Mr. COHEN. Yes, but the difficulty is that when you are dealing with these basic elements here, there is no indication that you are dealing with a fully matured system. It seems that you must either discuss transitional problems here or point out that you are dealing with a mature system; otherwise there will be confusion in people's minds.

Mr. REBAGLIATI. I wish to comment on what Mr. Cohen has said. The modern idea of invalidity is not that of premature old age but that of physical and mental incapacity. Considering that the number of contributions required to qualify for an invalidity pension is smaller than that required for an old-age pension, it should under any scheme be easy enough to qualify for any invalidity pension.

The CHAIRMAN. We will proceed to 325 (c) current insurance. Are there any remarks on (c)?

Mr. COHEN. In (ii) the phrase is used "assuming that active population, even each earnings group, supports currently its retired members." I am not clear as to what you mean by "even each earnings group." To the extent that you do try to demarcate earnings groups within the confines of a general system, it seems to me you are doing exactly what we do not want to do, as Mr. Marsh has said frequently—obtain a redistribution of some of the financial burdens of the system. To limit these burdens to groups, which might be relatively small or relatively large, seems to me undesirable. I feel that this statement really should be omitted if it means something along the lines I have indicated.

Mr. SARAIVA. I suppose that in a nationwide system such as, perhaps, that of the United States there could be some confusion about it, but for the Brazilian system, for instance, it is very well put, because we have our insurance by groups of workers. For instance, we have institutions to insure industrial workers. Would this report mean that this special group insured in a special institution will bear the burden of better pensions? I suppose that is the precise meaning, and that it would not apply to one national system, but to those systems which cover certain occupational groups as we do in Brazil.

Mr. STEIN. Does Mr. Cohen deny the existence of the railroad retirement system?

Mr. COHEN. No, but that is not an earnings group; it is an occupational group. I think we should clarify this statement along those lines.

Mr. REBAGLIATI. This system is easy to apply to groups and even easier when the coverage is general.

Mr. WATSON. It would probably take a very long time to say all I should like to say on this subject. Nevertheless, I do not wish to let it go by without saying something more. There is a good deal of what may be called false doctrine mixed up in this section, and a good deal of misunderstanding of the economic system and of the effects of maintaining reserves, and the whole question of the standard of benefits is ignored. What is reasonable and proper where the standard of pension benefits is subsistence may be wholly out of place where the benefits are very much larger. There has been a lot of misunderstanding injected into social insurance due to the fact that in Britain old-age pensions, although on a contributory basis, have been, or will shortly be, financed out of current resources. That may be reasonable in Britain—maybe, I do not say it is—due to the fact that benefits there are nothing more than subsistence benefits. Where you increase those benefits 2, 3, 4, or 5 times, certainly you must arrive at some point where that system of finance is not good enough. There is a supposition among some people that when money is saved and invested properly, it is placing a burden on the current generation and does not lighten the burden on the future generation. I think we should be very clear about that point. I do not think there is anything in it, but we ought to be clear concerning the place for current-cost financing.

Mr. STEIN. The place is in "Financial Arrangements."

Mr. WATSON. It seems to me it falls here. We are here discussing financing and reserve for benefits. One point that may be urged against a reserve system is that the benefits may get out of line with the cost of living. I should still prefer to adhere to what I shall call, with your permission, "sound financing," and use a cost-of-living index, to adjust the pension benefits from time to time to the cost of living, rather than to go forward in a slipshod method of finance, ignoring the source of your fund and treating contributions as though they were current taxation.

Mr. PIGEON. Should we not consider, with respect to this question of the merits and demerits of current insurance, that savings are a factor of the aging of the population. The factor of the aging of the population, it seems to me, favors savings insurance and makes for an increased burden on current insurance, and points to the compromise indicated at the end, in (d).

Mr. STEIN. I believe, Mr. Pigeon, that you will get satisfaction if you look at 328. We will come back to this point later on.

Mr. REBAGLIATI. I should like to insist on this point, since we are just going to deal with it in a new law. As I already observed, a new risk has come into being, that of insufficiency of benefit. We introduced social insurance to cover the risks of the active population but we must also cover the risks of the passive population, i. e., the pensioners. There exist precedents for adjusting pensions so as to regulate their insufficiency. Invalidity and old-age insurance provide for the continuance of the right to medical benefits. Various measures have been adopted to maintain or supplement invalidity benefits. The Czechoslovak law, which is one of the best designed in Europe, provides for a supplement of 8 percent of the pension for each child and 50 percent where the pension requires constant attendance. If it is possible to provide medical care, it is also possible to increase the pension where constant attendance is required. Why should we not find an actuarial basis which will enable us to supplement pensions for increase in the cost of living? It would not be a permanent supplement. In this connection it should be noted that, as the cost of living goes up, so do wages.

The CHAIRMAN. Are there any further observations on (c)? If not, we can proceed to 325 (d).

Mr. COHEN. As I understand it, the word "insurance" has been substituted for the word "savings." It seems to me that that helps a good deal, but still leaves some difficulty in our minds in that it implies that the increments are not insurance.

Mr. STACK. They are savings.

Mr. COHEN. You could have a different kind of increment which is not savings, namely an increment based upon the length of time that you are in the system with no direct relation to the amount that you have contributed. My own feeling is that you would avoid some of the difficulty by substituting the word "basic" for "insurance." Then the basic element, whether it is related to the minimum amount that an individual should get, or to a combination of a formula plus the minimum amount, or to any other combination of factors, does not have anything to do with whether it is insurance or savings.

Mr. PIGEON. Should we not clarify Mr. Cohen's point if we were to add at the end of (d) (ii) "related to contributions"?

Mr. STEIN. Yes. I must say a word for the sake of our record—especially since the two Chilean gentlemen are not here. Mr. Watson used the expression "false doctrine." We should be careful in our terminology. There is before the Chilean Congress, signed by Dr. Salvador Allende, a bill on the reform of the pensions system applying to a million Chilean workers, which suggests the following structure of old-age and invalidity pensions. The pension consists of two elements, (a) the basic pension and (b) an increment proportionate to the value of contributions paid. The basic pension is either 25 percent of the average previous wages of the individual or 60 percent of the average wage of *all* insured persons during the previous year, whichever of these amounts is the higher. That is current financing and it is not "false doctrine" in terms of social insurance, though it may be false in terms of private insurance.

Mr. SARAIVA. I would like to stress one point, which I think is basic in social security. We must not get the idea of individual property rights to a certain amount of money in social security. Social progress and social solidarity must prevail in the philosophy of social security. Of course in its mathematical operation you take into account individual contributions, but basically the idea of social security is not the property of one individual in his savings; you must take into consideration social solidarity.

Mr. WATSON. All the social objectives that can be obtained under a so-called current cost scheme can be obtained more soundly under the so-called reserve system. It is not a question of property of the individual; it is a question of national finance. If a nation as trustee collects contributions to provide a future benefit, those contributions should be conserved for the purpose for which they are collected. If we are going to pay a small old-age pension out of current revenue, as we do in Canada, that is quite right, because we have never collected any contributions for such pensions, but if we increase the benefit

and provide it by collecting contributions for the increase, then we are getting to an abuse of our finance, if we do not invest that money for the purpose for which it was collected. I cannot argue the full question here today. I did argue it fairly fully in the transactions of the Actuarial Society. I believe all the arguments that could be brought up in favour of current costs were brought up there. I hope I answered them and I do not think there has been any come-back since. It is a question of being tidy about the national finance.

The CHAIRMAN. We shall proceed to the subject of Financial Arrangements, and start our discussion with paragraph 327.

Financial Arrangements

CLASSIC PATTERN

326. Financial arrangements of insurance comprise collection of contribution, sharing of liability, and financial equilibrium:

(a) Insured person's contribution is deducted at source and collected by employer, and paid, together with his own, either in cash to insurance fund or in stamps affixed to cards of individuals;

(b) Cost of:

(i) sickness and maternity insurance defrayed by equal contributions of employers and insured;

(ii) invalidity, old-age, and survivors' insurance defrayed by equal contributions of employers and insured and by State subsidy;

(iii) accident insurance defrayed by employers alone;

(c) Financial equilibrium of:

(i) sickness and maternity insurance based on current-cost or assessment system;

(ii) invalidity, old-age, and survivors' insurance based on accumulation of reserves and constant premium scale.

OBJECTIVE

327. Financial arrangements. *To devise financial provisions and methods:*

(a) *For collecting contributions from nonemployed effectively and economically;*

(b) *For distributing cost of insurance among insured, employers and State, so as to satisfy:*

(i) *individual equity—insured should not contribute more than probable cost of benefits for himself and average family;*

(ii) *group equity—equal contributory effort for equal benefits from all groups of insured of equal contributory ability;*

(iii) *avoidance of hardship—contributions should not force net earnings of insured below level of health and decency;*

(iv) *encouragement of prevention—contribution of employer and State should vary with success in reducing need resulting from contingencies covered;*

(v) *social responsibility—State should be responsible for need resulting from general social and economic conditions;*

(c) *For regulating financial equilibrium in such a way as:*

(i) *to guarantee, as far as possible, payment of promised benefits;*

(ii) *to use disposable financial resources to promote health and employment.*

Let us take paragraph (a) first.

Mr. MARSH. I take it that the answer to (a) is carried over to paragraph 328.

The CHAIRMAN. Yes.

Paragraph (b); are there any comments?

Mr. COHEN. I should like to make a comment on behalf of two of my colleagues who are attending the other meeting. With regard to 327 (b) (i)—the concept of the average family, as I understand it, is merely to answer the maxim of the concept of individual equity, that is that the insured wage earner should not himself contribute more than the probable cost of benefit for himself and an average family. I am sure that with that understanding my colleagues have no objection, but I know that they have felt quite strongly that the concept of the average family, particularly with respect to service benefits for health, is not a sound one; therefore I assume here two things: first, that it is the insured

worker's contribution for himself, and secondly, that this does not apply to the medical service benefits at all, but merely to the cash benefits for old age and unemployment. And yet in many respects, the concept of the average family seems to us a somewhat artificial one, because at best it is an average concept which may change continually, and it does not actually represent the probability of an individual meeting the particular risks in terms of his own special circumstances. I think it is a very complex point to stress in connection with individual equity, because in some respects you seem to have a contradiction in connection with group equity. I am not sure whether you mean that all five conditions must be satisfied, or merely that they must all be taken into consideration.

The CHAIRMAN. Are there any further comments?

Mr. PIGEON. With respect to Mr. Cohen's point, I should like to say this: according to my understanding, the general idea is to have all dependants insured through contribution of the breadwinner. Therefore I take it that the limitation with respect to individual equity is that no individual should be called upon to pay more than for himself and for the average number of dependants throughout the country.

Mr. STEIN. That is correct.

Mr. WATSON. This is a very big question involved in 327. I should like, if I may, to clarify it. I believe there is a great deal of misunderstanding. The very phrase "individual equity" suggests that. I do not think that social insurance is any better understood than ordinary insurance, but for every plan of ordinary insurance there is necessarily, a different technical approach. Likewise with social insurance, the technical approach has to vary considerably. On the question of individual equity—we will take as one type unemployment insurance—there has been a good deal of argument about merit rating. Sir William Beveridge referred to it the other day. It was thought that they must have merit rating in order to get what is called individual equity. I think that idea arose partly by analogy with workmen's compensation. Workmen's compensation is a short-term contract. Persons go to work and receive an injury an hour afterwards and they are entitled to full insurance; they shift from one employment to another, and they are insured as they shift.

Mr. STEIN. That is discussed in paragraph 329. Here we are dealing only with the insured person's contribution.

Mr. WATSON. I thought I could illustrate what seems to be the right basis of unemployment insurance. I wish to distinguish, if I can, between workmen's compensation and unemployment compensation. Unemployment insurance is a long-term insurance in contradistinction to workmen's compensation which is a day-to-day and hour-to-hour insurance. If we think of the young people leaving the schools and universities and entering employment and the unemployment insurance system, it is unknown to them and to everybody else what their future is as regards unemployment. If the particular plan of unemployment insurance includes, as it does in Britain, additional benefits for wife and children, possible future dependents are also unknown and you charge one average premium to cover all those risks.

I do not like the term "equity" very well; all it means is to get the right average premiums for the risks you are insuring. In life insurance for instance, you insure people at the age of 20 and charge a certain premium for life and you call that an equitable premium because it covers all of the future unknown. It is merely an insurance convention, if you like, to call that an equitable rate. The individual rate for unemployment insurance is an equitable rate, although you find all conditions of risk for people paying the same premium. I want to make that clear because too often it is supposed that contributions are inequitable because, when you look at the risks covered at the time, there are all conditions in them. If you look at the people aged 20, or at the people aged 40, who are covered by life insurance you find all conditions of risk; yet the premium is equitable because it covers all future unknowns.

Mr. SARAIVA. Not an objection but a question: is this a list of considerations upon which payments are based? I would like to ask if the salary is not what should be taken into account. Usually when we want to fix contributions we take into account the worker's salary. It is one of the basic elements for any calculation, because if you take only the average cost of the benefit you might arrive at a contribution which might be the equitable one or the necessary one but which could not be borne by the wage earner.

Mr. STEIN. That is covered in (3).

Mr. MARSH. May I ask a question? As I understand this, this is just a set of rough criteria and not the actual contributions we arrive at. They are in no sense the scientific determination.

Mr. STEIN. It is merely a sign saying "do not cross this border, it is dangerous." That is all. You must try to move within those limits.

The CHAIRMAN. Paragraph (c): Are there any comments?

Then we can proceed to paragraph 328, which is as follows:

Financial Arrangements (Continued)

METHODS

328. Collection of contributions. *Contributions may be collected from non-employed:*

- (a) *By attaching them to existing:*
 - (i) *income tax, possibly with lower exemption limit for contribution purposes;*
 - (ii) *local property taxes;*
- (b) *By using as agents for collection, responsible for default of persons able but refusing to contribute:*
 - (i) *municipality;*
 - (ii) *occupational associations;*
- (c) *By using stamped cards, which method:*
 - (i) *facilitates payment in small instalments;*
 - (ii) *is easily understood;*
 - (iii) *avoids confusion between contribution and tax;*
 - (iv) *minimizes accounting;*
 - (v) *but is very difficult to enforce and in fact hardly distinguishable from voluntary insurance.*

Mr. PIGEON. With reference to possible collection of contributions of non-employed by attaching them to income tax, I am afraid the weakness of this method lies in the fact that collection of income tax from this group is also difficult.

The CHAIRMAN. Is there any further comment on 328?

Mr. COHEN. I would like some explanation of a point which seems to me hard to understand—in 328 (c) (v) where it says that the use of stamped cards in very difficult to enforce and in fact hardly distinguishable from voluntary insurance.

Mr. STEIN. For nonemployed persons it is so.

Mr. ALTMAYER. I should like to ask someone to parse, as we used to call it, (b)—"by using as agents for collection, responsible for default of persons able but refusing to contribute." Now what does "responsible" modify?

The CHAIRMAN. "Agents."

Mr. ALTMAYER. So you do not use the term "responsible" in the sense of causing the default?

The CHAIRMAN. No. We can now proceed with paragraph 329, which is as follows:

329. Distribution of cost. *Regard should be paid to following principles in determining distribution of liability for cost of insurance:*

- (a) *Insured person—individual equity, group equity, avoidance of hardship;*
- (b) *Employer by tradition carries a certain responsibility for welfare of workers, particularly where:*
 - (i) *it is impracticable to obtain sufficient resources from State;*
 - (ii) *application of merit-rating encourages employers to reduce need for benefit (occupational incapacity and death, unemployment);*
- (c) *Employer's total contribution should be limited because:*
 - (i) *contributions proportionate to number of workers employed conduce to replacing labour by machines and cause temporary unemployment;*
 - (ii) *contributions proportional to wages discourage high wage policy, unless proportion is lower in case of high wage earners;*
- (d) *Possibility of substituting State subsidy for employer's contribution with respect to contingencies against which employed and non-employed alike are insured, considering that:*
 - (i) *employed should not be privileged in comparison with non-employed;*
 - (ii) *final incidence of employer's contribution is indeterminate—partly on profits, partly on prices, partly on wages;*

(c) *State, as collectivity of taxpayers should take special responsibility for:*

- (i) *needs that are of primordial interest to society (e. g., children's allowances, maternal and infant welfare);*
- (ii) *diseases caused by defective environmental conditions;*
- (iii) *unemployment imputable to fiscal policy;*
- (iv) *persons too old at initiation of insurance to obtain sufficient protection from it;*
- (v) *persons too poor to pay full premium for minimum benefits.*

We have just five minutes before we adjourn. Let us discuss 329 (a).

Mr. MARSH. The next three points are so much bound together that we may be unable to do that.

The CHAIRMAN. Then let us take (a), (b) and (c) together.

Mr. PIGEON. In connection with (c) (i) I cannot see that the replacement of labour by machines is an objection. It is true that the replacement of labour by machines may create temporary unemployment, but it is desirable that we should strive to attain the best use possible of human labour, and therefore it should be our objective to favour the replacement of labour by machines.

Mr. COHEN. The second part of (b) seems to me unfortunate in giving some substance to the idea that merit encourages employers to reduce the need for unemployment benefit by reducing unemployment. I think it would be very unfortunate if that statement were to be published in its present form. The words which are now used in the United States are "experience rating", "merit" having been dropped, because everyone concedes that there is no merit in it with respect to the individual employer's contribution to meeting the problem, except perhaps in the cases of occupational incapacity and death. It is generally conceded now that the individual employer has very little control, if any at all, over reducing the risk of unemployment. So I would suggest a modification of that paragraph to make clear the distinction between the employer's responsibility for occupational industry hazards and for unemployment hazards preferably by striking out "enemployment".

Mr. STACK. I should like to take this opportunity of asking one question, Mr. Cohen. Are you in the United States convinced that there is no system of merit rating applicable to unemployment which could offer any inducement to employers to reduce unemployment? I am not saying the existing system—I am saying: Are you convinced that you cannot apply merit rating?

Mr. COHEN. My own answer to that question personally would be that there are many ways in which you can develop a system which would encourage individual employers to reduce unemployment, but it should not be tied up with social insurance; they are two separate things.

The CHAIRMAN. We shall now adjourn and proceed below to hear the broadcast.

The meeting rose at 5 p. m.

SIXTH SITTING, MONDAY, 12 JULY (MORNING)

The meeting opened at 9:35 a. m. Mr. Ian Mackenzie was in the Chair.

The CHAIRMAN. Yesterday we were discussing paragraph 329 and had finished (a), (b), and (c). Are there any comments on (d)? If not, we shall pass to (e).

Mr. WATSON. I think (e) (iii) is perhaps all right in principle, but in practice I do not think it is possible to distinguish between unemployment which results from fiscal policy and other unemployment, either in benefits or in contributions.

Mr. SARAIVA. I was going to make the same observation. It is very difficult in practice to attribute unemployment to one cause rather than to another, since the causes are usually linked.

Mr. ALTMAYER. In other words, what you would suggest is probably striking out everything after the word "unemployment"?

Mr. SARAIVA. No, I would rather say "unemployment directly imputable to Government action," because fiscal policy has far-reaching results; you could not judge them in any one year.

Mr. ALTMAYER. Well, I am being facetious, but Beveridge would really say that all unemployment is a charge upon the Government because it can be avoided.

Mr. SARAIVA. In theory, yes, the State is supposed to avoid unemployment, but I understand what is meant if you say "unemployment caused by Government action," but not "fiscal policy."

Mr. ALTMAYER. We could change it to "unemployment attributable to Governmental policy."

The CHAIRMAN. All right, that is agreed upon.

Mr. STEIN. We did not want to apportion responsibility for unemployment; we wanted just the recognition of the responsibility of the State.

The CHAIRMAN. Is there any further discussion on 329? If not, we shall pass to paragraph 330, which is as follows:

Financial Arrangements

METHODS (CONTINUED)

330. Financial implications of national insurance. *Because insured population is practically identical with total population:*

(a) *National insurance becomes one aspect of State activity, though separately organised and financed;*

(b) *To greater degree than insurance for any section of population, national insurance:*

(i) *should consider national interest in its financial policy;*

(ii) *must depend on national productivity for its solvency.*

Mr. WATSON. I think we should distinguish between different types of social insurance instead of lumping everything in together. In social insurance, as in other kinds of insurance, there are short-term contracts and long-term contracts and the method of financing is different. When we move from one type of social insurance to another, we have to reconsider and orient our position and make the financial set-up meet each part of the scheme. In addition you have to consider the magnitude of the problem; if it is an old-age benefit of subsistence standard, it is not necessary to be so circumspect; if the benefits are large, it is a different proposition.

Mr. STEIN. This is a kind of historical paragraph. A new era is opening and we wanted to make it plain that all the social-insurance arrangements require revision now when it is being transformed into a national system.

The CHAIRMAN. If there is no further discussion, we shall now pass to paragraph 331, which is as follows:

Financial Arrangements

METHODS (CONTINUED)

331. Financial system for contingencies involving expenditure oscillating about a constant average. *Current-cost system—adjustment of premium from time to time to benefit expenditure:*

(a) *Is indicated for sickness and maternity benefits;*

(b) *Is indicated for unemployment benefit, with cyclical accumulation and disbursement of large contingency reserves, permitting or involving:*

(i) *high contributions when employment is good, and inversely;*

(ii) *distribution of buying power and possibly credit to business during depression.*

Mr. WATSON. If "high contributions when employment is good," means changing the rate of contribution when employment is good, I think it would give rise to many practical difficulties and be objectionable on many grounds. Of course the mere fact of full employment will necessarily mean that there will be more contributions when employment is good. I think it is better for practical reasons to try to strike an average contribution rate based on a fair period, and then adjust it if necessary.

The CHAIRMAN. Is there any further discussion on that? If not, we shall take paragraph 332, which is as follows:

Financial Arrangements

METHODS (CONCLUDED)

332. Financial system for contingencies involving long-term gradually increasing expenditure. *Reserve system—constant premium, building up reserves to meet future premium deficit by interest:*

(a) *Is indicated especially for old-age pensions (increasing in number and possibly in average rate) and possibly for invalidity and survivors' pensions, linked to old-age pensions;*

(b) *Affords formal guarantee that pensions promised (disregarding price changes) will be duly paid, provided that reserves are invested in State bonds, interest charged being transferred from citizen as contributor to citizen as tax payer;*

(c) *Supplies funds which, lent to State, may be used, according to national plan, to provide public works and services which improve national health and economic efficiency, such as:*

- (i) *sanitary works;*
- (ii) *hospitals;*
- (iii) *schools;*
- (iv) *roads;*
- (v) *productive undertakings of national importance for which private capital is lacking;*

(d) *but takes more from pockets of contributors than is immediately necessary, and transfers savings from private investment to public investment (possibly less productive).*

Mr. WATSON. The first thing that requires comment is the suggestion to meet future premium deficit by interest. That is a misunderstanding, I think, that arises from a failure to consider the indirect workings of a reserve fund for social insurance. There has been a good deal of argument in the United States that the reserve fund merely serves the purpose of earning interest to supplement the amount being collected in contributions from time to time to pay the benefits. As a matter of fact, the working of a contributory old-age pension or annuity fund is that the reserves built up for those emerging in a particular year as pensioners are liquidated for their own benefit or sold to the people who are saving. That is the correct understanding. It is a misunderstanding to say that the purpose of a reserve fund is to earn interest. When you take that position you are on the high road to saying that the individual who is required to save by the Government is not paying for his own old-age benefit; but properly speaking, what takes place within the fund is that the reserves accumulated are actually liquidated to pay the benefits to the individual. You do not see it, because the liquidation is implicit in bonds being sold to the younger people who are saving. I think that point is extremely important, and if it is thoroughly understood, it will avoid a lot of misunderstanding.

Mr. MARSH. The assumption seems to be that this reserve is going to produce an actual surplus. If it is carefully calculated there will be no such surplus. I understand the point to be that if there is at any time more than is needed for any current benefits, that amount is available for other things.

Mr. WATSON. My point of view is that the reserve is very important for particular types of benefits. I think we should keep separate the ordinary finances of government and the finances of a good many types of social security. When you move into a field of social security where there are long-term benefits, such as pensions, and you collect contributions to provide for those benefits, those contributions are trust moneys and ought to be treated as such. If not, there is not much point in collecting them. Now, you are accumulating a reserve fund. You take that money and you buy Government bonds. By so doing you put money in the pockets of the people, and there are only a few things those people can do with that money. They can spend it for current purposes, and to some extent they probably do. Older people selling their bonds to the Government may want the money to live on, and younger people may want the money to build a house. But the money that goes into the hands of people by the buying in of Government bonds is invested ultimately in new industry by people who know more about new industry than the Government. That is the way that the United States and Canada have become prosperous countries—by individuals entering new enterprise. And that is what is forced upon people when you have a social insurance reserve fund. You buy up Government bonds and you force upon the people the need for finding new outlets for their enterprise and energy. You have to follow the whole fiscal operation right through to the end to understand what is going on.

Mr. MARSH. I cannot agree with Mr. Watson's analysis as to what happens to bonds. It seems to me completely controversial. The other point remains the same; that this reserve is merely something that is redistributed any way. Why is it so important?

Mr. STEIN. I want to refer to Mr. Watson's statement. About the separation of national insurance financial organisation from Treasury operations, may I point to paragraph 330 (a), where we say "national insurance becomes one aspect of State activity, though separately organised and financed." That is exactly

your view. Even in the United States, where social insurance contributions are so closely assimilated to taxes, there is a special fund of which Mr. Altmeyer is one of the trustees. I hope you approve of this.

Mr. WATSON. It depends on what you mean by separation. It does seem to me that if you are collecting from individuals moneys which are supposed to be sufficient or nearly sufficient to provide pensions, then those moneys should be administered as trust funds separately.

Mr. STEIN. Is your unemployment insurance fund sufficiently separated?

Mr. WATSON. It is apart from Government activity entirely.

Mr. STEIN. That is what we had in mind. Concerning meeting future premium deficit by interest, I quite agree in substance with Mr. Watson's statement. May I, furthermore, refer to the words in (a)—"increasing in number and possibly in average rate." Here you have a possibility of a premium deficit, even with a general average premium calculated for all generations of insured persons. The surplus of the premium over expenditures in the earlier years of operation is used to buy bonds. But, in principle, it should never be necessary to liquidate these bonds, the interest on which, added to the current contribution income, should just meet the current expenditures of the mature insurance system.

Mr. WATSON. The liquidation depends on the proportion of your young population to your old population. You may not have liquidation, but there is implicitly liquidation all the time.

Mr. STEIN. We will note this in the record.

The CHAIRMAN. Now we come to paragraph (b).

Mr. WATSON. I think we should say "transfer from citizen as contributor to citizen as beneficiary."

Mr. STACK. No; the people who are paying the interest are the taxpayers.

Mr. WATSON. It is transferred from them to the members of the fund.

Mr. STACK. What happens is that the citizen as a contributor, paying a level rate, has built up the money that has been used to purchase those bonds, and the interest on those bonds is being paid now by the citizen as a taxpayer, instead of by the citizen as a contributor.

Mr. WATSON. That is the reverse of what is said here.

Mr. STACK. I agree that it is not as clear as it might be.

Mr. ALTMAYER. May I ask whether our Latin friends, who are not here this morning, would be satisfied with (b), which emphasises so much investment in State bonds?

Mr. STEIN. They have full compensation in (c).

Mr. COHEN. Is not (c) a little too strict? You say "lent to State"; they may not be lent to the State.

Mr. STACK. It means that the State would have to guarantee the interest.

Mr. STEIN. There is a slightly optative element in the text. We think it should be so, especially for our South American friends, but we think the investment should somehow be passed through the medium of the State, to guarantee that, even from hospitals and schools, actuarial interest is paid or credited.

Mr. WATSON. My personal preference would be that the fund should be kept separate from works like roads, schools, and so on.

Mr. COHEN. I feel very strongly about the matter in parentheses in (d)—"possibly less productive".

Mr. STEIN. So do we.

Mr. COHEN. I think first it is not a generally correct statement; secondly it is misleading; and thirdly, it is undesirable to put it in here. I think that in the kind of expanding economies we have now, where tremendous investments are necessary in great public projects—in dams, and in the development of whole economic areas—public investment is not only frequently the only possible way to open up new enterprise, but it is vastly more productive than any other possible type of investment, because it opens up new opportunities for whole areas and whole peoples. If we say anything at all, I would say "possibly more productive."

Mr. STACK. That was a sop to the people who believe that capital is, as a rule, more productive if left in private hands.

Mr. COHEN. I am at a complete loss as to whether you are giving sops here to arguments which are not valid or are trying to present an argument which is defensible.

Mr. STACK. The United States had undertaken things like the building of dams, but the British social insurance has proceeded on a different basis.

Mr. COHEN. Yes, but this does not apply to them, because the British reserves are relatively small in comparison with anything that is contemplated in other

types of systems, and I never thought that (c) in its broader aspects would apply to a country like Great Britain, but to the extent that it does, and to the extent that Great Britain has public investment, I assume that they have it because they think it is productive. Otherwise why do it?

Mr. WATSON. I think I might explain how it happens in Britain. When they started contributory old-age pensions there was an enormous burden thrown on the fund that was not and never would be provided for by contributions, but there was a current surplus, and they have, reasonably enough, been investing that current surplus. But with the heavy outflows, that surplus is gradually disappearing, and pretty soon they will be, if they are not already, on a current-cost basis; that is to say, they are really paying the benefits out of current resources and not out of any reserve.

The CHAIRMAN. Is there any further discussion?

Mr. WATSON. Just one point. It is not clear in my mind that it is correct to say that investing reserves—investing them, that is to say, by buying Government bonds in the market—means transfer of savings from private to public investment. I rather think it means the reverse. The Government, or rather the social insurance commission or institute, is becoming the owner of Government bonds, and as I explained before, by the purchase of those Government bonds in the market you are putting funds in the market and compelling people to find new investments and establish new interests. This would not be the case if the Government used the money to reinvest in other enterprise—dams and so on—but in the ordinary sense of investing—as they are doing in Britain on a small scale, and as the Social Security Board was originally intended to do. In a word, if they were to confine themselves to buying in the market they would be financing private investment and not public investment.

Mr. MARSH. I cannot agree with that interpretation about private and public investment, because it assumes a fixed amount of investment at any time. It is comparable to the old wage-fund theory. There is no fixed amount. The idea that if you buy Government bonds you restrict the amount of private investment is no good. The amount of investment depends upon a combination of public and private enterprise.

Mr. WATSON. That is not my point. I was explaining that if you buy bonds from people you are putting money in their pockets, and they must find an outlet for that money in new investment and new enterprise.

The CHAIRMAN. If there is no further discussion we shall go on to the subject of Administration and begin the discussion with paragraph 334.

Administration

CLASSIC PATTERN

333. (a) Sickness insurance administered by local or occupational funds, managed by elected representatives of insured persons and employers.

(b) Pension insurance administered by one or several national institutions for manual workers, salaried employees, etc. Governing bodies of these institutions contain State representatives as well as elected representatives of contributors.

OBJECTIVE

334. Simplified administration, democratic participation:

(a) *To simplify the law and administration of national insurance in order that:*

(i) *insured persons can understand their rights and duties;*

(ii) *procedures for insured persons and employers may be reduced to a minimum;*

(b) *To associate contributors with administration in order that they may be able to maintain efficiency and promote desirable amendments.*

Are there any comments on that paragraph? If not, we shall go ahead with paragraph 335, which is as follows:

Methods of Administration

335. Simplification:

(a) *If possible, reduce classes of insured persons to two, employed and non-employed, with their wives and children.*

(b) *Use same procedures for employed and non-employed in respect of contingencies for which both are insured.*

- (c) *Single contribution from insured person.*
- (d) *Single contribution from employer.*
- (e) *Single joint contribution in respect of persons regularly employed.*
- (f) *Single method of calculating temporary benefits.*
- (g) *Single method of calculating pensions.*

Mr. MARSH. I ask indulgence on a very important point. Paragraph 328 refers to the collection of contributions. That is a topic in which those of us in Canada are immensely interested, because it relates directly to the problem of getting farmers and other groups into the scheme, and I think to some extent the actual techniques are almost as important as the simplification. I think we should cover those together.

The CHAIRMAN. Yes, certainly.

Mr. MARSH. I would like to throw the ball to somebody else. I wonder whether there is any opinion in the Social Security Board on this matter of collecting contributions from the non-wage-earners. I would like to know if the Board has any view on that.

Mr. SARAIVA. I could give Mr. Marsh just a brief indication of what we do in Brazil and intend to do further. We collect these contributions by using the syndicates or trade unions—for instance, a syndicate of non-employed people such as peddlars—as collecting agents.

Mr. STEIN. Chambers of Commerce could also be utilised. We have in paragraph 328 "occupational organisations."

Mr. SARAIVA. Chambers of Commerce and all similar occupational associations. Furthermore, there is an easier means which we are using for motor drivers and taxi drivers in Brazil. When they pay their annual driving licenses, they must prove they are up to date with their payments to social security or they do not get their license to drive. With motor drivers it works easily.

Mr. PIGEON. Since this question of contributions is being brought up again, I will take the liberty of elaborating on the remarks I made yesterday with reference to paragraph 328 (a) (i), namely, "possibility of attaching contributions from non-employed to income tax." My view is that this is not an effective or desirable method because this class of persons is the one class from which income tax is the least efficiently collected. It may be safely asserted that the one serious defect of income tax when it becomes very high is that so far it has not been possible to assess properly the income of those citizens who derive their earnings from small sums received in cash from a great many persons and from whom no strict accounting can possibly be obtained. If we were to attach the contributions for social insurance to income tax in respect of such persons, we should be aggravating the present hardship on wage earners and salary earners and even people deriving their income from investment, because these classes pay full income tax and, therefore, would really have to bear a part of the burden on behalf of the non-employed if the contribution were attached to the income tax. That is why I think paragraph (b) is the most desirable method—either the municipality or occupational associations. In connection with occupational associations, I might mention the experience of the Province of Quebec in administering the Collective Agreements Act. Under this Act the enforcement is entrusted to joint committees formed of representatives of occupational associations. In the case of the independent tradesmen it was found impossible to collect the assessment from these persons satisfactorily until we devised a scheme of an arbitrary assessment. The assessment is a percentage of the wages, and in the case of the "independents" what we do is arbitrarily assess their earnings as being those of a journeyman.

Mr. REBAGLIATI. Under the Peruvian Social Insurance scheme, the affiliation of independent workers has begun only a little while ago. Just recently, in response to a petition from the taxi drivers, the Government issued a decree bringing them into compulsory insurance. The problem then arose of how to collect their contributions. Under our law we had a system of wage classes, and independent workers were classified in the lowest wage class. Even so, it was difficult enough to collect the contributions regularly. I believe they had the same experience in Chile. In Peru, I do not think it would be advisable to collect contributions together with the income tax, because independent workers, by reason of the smallness of their income, probably do not pay that tax. At last we settled the problem of the taxi driver by the same means as that explained by Mr. Saraiva. The Peruvian taxi drivers union made itself responsible for collecting contributions at the same time as the driving licenses were

issued. Because of these difficulties we are unable to extend insurance as we should like to all the independent workers in the country.

Mr. RAGGI. I should like to make a suggestion in this connection, which, although it has a disadvantage, is one which might be adopted in my country and perhaps in others. I suggest a tax on rents. However the workers are living, they must have a dwelling place, and in our country many independent workers own their houses. In any case, the rental value of a house can be estimated. A contribution based on the rent or rental value of a dwelling has obvious advantages. In the first place, it is easy to collect at the same time as the municipal tax on rent. In the second place, it would apply under the same conditions to everybody. Thirdly, the rate of earnings could be deduced from the rental value. I submit these suggestions for consideration.

Mr. PIGEON. I am afraid I cannot agree to this last suggestion of basing contributions on rent, because I think it would be unduly hard on people who require large, comparatively expensive lodgings on account of the size of their family. It would not be a suitable basis, because the objective is to favour large families and never disfavour them.

Mr. WATSON. Returning to 335, I think the words "if possible" in (a) should be shifted outside the paragraph.

Mr. STEIN. I am not quite sure of that.

Mr. MARSH. I want to make reference to one point before we go on. Perhaps it comes under 335, perhaps elsewhere. There has been no reference to the device of a registration charge for those contributors whose income is below a certain level. It seems to me that that is of considerable importance. It may be that we all take it for granted, but I would have thought that was a matter on which it was possible to express some generalisation. Is it or is it not desirable to incorporate that into some comprehensive administrative scheme? It seems to me like a new principle in all comprehensive social insurance planning, and if I am right, in that case I think we should say so. I refer to the device of setting a minimum income—and this is particularly relevant to the non-wage-earners—and having a carefully organised and very definitely set rate which puts the contributor on a level with those who make the regular contribution.

The CHAIRMAN. If there is no further discussion, we can go on to paragraph 336, which is as follows:

Administration

METHODS (CONTINUED)

336. Contributors' representation:

(a) *In national insurance, involving uniform rules and rates of contributions and benefits, there is hardly place for local autonomy;*

(b) *Organisations of main groups of contributors should be represented in administration:*

- (i) *trade unions;*
- (ii) *farmers;*
- (iii) *employers' associations;*
- (iv) *chambers of commerce;*
- (v) *women's associations.*

If there is no discussion, we can go on to paragraph 337, which is as follows:

337. Participation of representatives. *Representatives of organisations may participate in administration:*

(a) *Centrally, associated in or advising on framing of regulations and amendment of legislation;*

(b) *Locally, as assessors on appeal bodies which settle disputed claims involving knowledge of local and occupational conditions.*

If there is no further discussion, we shall call in the medical committee. We shall have about two hours in which to go through the section on medical care and there are about 30 sub-headings; I would therefore ask you to limit the discussion of the main sub-headings to about 5 minutes, if you can.

PART IV. MEDICAL CARE SERVICES

(The members of the medical sub-committee came in.)

The CHAIRMAN. We have finished Part III of the Agenda, and now we come Dr. Etchebarne as Chairman, to consider medical care services. I will ask Dr. Etchebarne to report to us.

Dr. ETCHEBARNE. It has not been possible for us to examine all the proposals of the I. L. O. On Medical Care Services. We feel that a matter of such importance necessitates much longer study and discussion. One of the members of the subcommittee, Mr. Falk, has proposed—and the subcommittee recommends—that the Office set up a permanent committee which might work by correspondence and reach more or less agreement. Nevertheless, we have made some progress. The first question that we discussed at some length was that of the denomination of the medical services. We preferred to call them “health services” so as to indicate from the outset that these services should have the widest possible content. We reached complete agreement to the effect that the health services should be available to all individuals, whether or not they are affiliated to certain institutions, and including, of course, children as well as adults. We dealt with the question of providing services both for persons who are able to afford contributions to a social insurance scheme and for those who are on its margin.

The next point which we discussed was the co-ordination or unification of the various health services. We considered it indispensable for the efficiency of benefits that all the health services should be unified or co-ordinated. We also agreed as to the necessity for general or regional regulations covering all the health services. We also took up paragraph 419 which deals with individual practice and group practice. We had some difficulty in finding out just what these two terms meant. Some of us thought that individual practice meant ordinary private practice, which the experience of some countries has condemned. What was meant, however, was individual practice by doctors, etc., working at their own surgeries without co-operation at health centres. This point therefore was cleared up. Just now we were considering the disadvantages of individual practice and the advantages of group practice. There were numerous minor proposals which the Secretary has noted down, and of which you will be able to take cognizance in due course.

Mr. STEIN. The Office welcomes the suggestion made by the medical subcommittee that the Office should establish a permanent correspondence committee on medical care. If this proposal meets with the approval of the meeting, the Office will be very grateful to the chief medical officers of the United States and Canada and other countries if they will serve as members of a permanent advisory medical care committee. I would ask the experts of those countries who do not have the chiefs of their medical services here to let us have the names of their chief medical officers or the directors of the Health Departments so that they can serve on this correspondence committee.

The CHAIRMAN. I take it that this suggestion that comes from our committee meets with the approval of the members of the Consultation.

Mr. REBAGLIATI. As Director of the Peruvian Social Insurance Fund, I wish to suggest as regular member of the medical committee, Dr. Guillermo Almenara.

Mr. SARAIVA. I want to propose the name of Dr. de Piero, our Chief Medical Officer.

Mr. STEIN. Those names are very well known to all of us.

Mr. SANDOVAL. I would suggest the names of two distinguished Cuban doctors: Mr. Morales Patiño, Director-General of Health and Social Insurance in the Ministry of Health, and Dr. Arturo Comas, Chairman of the Central Health and Maternity Board.

The CHAIRMAN. Is there any further discussion on this question? Do you wish now to discuss briefly the general scope of the medical care services? This committee will be set up and will function. In case any of those present would care to discuss any of the items under “Medical Care Service”, I will call the numbers now, without reading them, and if anyone wishes to discuss them, the discussion will be welcomed; it should not be prolonged. 401.⁵

Dr. GROVE. I venture to suggest to the Chairman that, if a medical committee is to be appointed, it would perhaps not be worth while for us to discuss further the health services, but to wait to hear the conclusions of the medical experts at a later meeting.

Mr. FALK. I shall be glad to speak on a few of the items which were among those which engaged our attention specially and are of a general nature, so that they may be of particular interest to this larger group.

I would say first that we spent a large proportion of our time, without being able to show much in the way of a constructive nature, in the clarification of the

⁵ For the text of Part IV of the Plan of Discussion, see Part D, Report of the Medical Sub-Committee.

general objectives and purposes, particularly with respect to the matter of providing for the rational, evolutionary development of co-ordinated relations between community-wide services, preventive services of a community or individual nature, and treatment and curative services for the individual. It took the form of a lengthy discussion as to what should be the exact title of the section, but it was not the title, as I say, that really concerned us, but the ideas which would be embodied in such a title. I am not sure exactly what phrase we came out with, but we came out with unanimity of opinion as to what we were trying to obtain. We trust that the I. L. O. staff will be able to express in a few words a summation of the complicated and diverse ideas noted in this discussion, and present it in a general sort of way under some such title as "Health and Medical Services", though there were some equally good alternatives.

The second major point concerned the problem presented by the categorical presentation in this Agenda of the major headings—"Public General Service," immediately ahead of paragraph 402, and "Social Insurance Services," immediately ahead of paragraph 404. Out of that discussion came, I think, these ideas. First that no specific or definitive document which might come from the I. L. O. should undertake to set in opposition to each other the concepts involved in a public general service as against a social insurance service. Basically, what is involved in those two terms is a difference particularly as to the method of financing a general medical service, and not an essential difference as to the nature of the general medical service; indeed, a term like "general medical service" might be an all-inclusive term. A particular system might be financed primarily or principally by the contributory method of social insurance, with or without being supplemented from general tax funds, or it might be financed partly from general tax funds or from special earmarked tax funds, and still those might be differences merely as to the method of financing the general objective, which is a general medical service providing all the necessary services to all members of the community. Within a general medical service, by whatever methods it is financed, it is necessary to recognise the evolutionary development of group practice as a means of providing services supplemented in certain classes of circumstances by services provided through individual practice; the opposition between group practice and individual practice is not real but only an apparent one. Further, the logical development of sound, efficiently provided services of high quality compels, for technological and for other reasons, the continued evolutionary development of group practice in those circumstances in which it is possible, with individual practice as a supplementary measure in the circumstances in which it is appropriate. Here, our discussions made clear that the relations between group practice and individual practice, as means of furnishing the service, are quite independent of any discussions of public service as distinguished from private service since group and individual practice are methods of providing the service, and public versus private practice are methods by which those services are paid for.

I think that in a general way those are, in their broad outlines, the conceptual problems and the organisational pattern with which we dealt, though they were precipitated in many instances by discussion concerning particular phases or particular methods of implementing them. With those general ideas agreed upon in a broad consensus, most of the problems presented by the remainder of the Agenda become problems of specific detail, of implementation with due regard for the very diverse circumstances in different countries at different stages of development of general medical services, for which room must be left in further discussion.

There is one other idea we touched upon at many points. We recognise that in the development of general medical services—and that term is perhaps a little too narrow because it is intended to embrace the health and preventive as well as the medical services—depending upon the circumstances in different countries, the specific description of the general plan must leave room for the unified or the coordinated development of those services which are traditionally of the public health or community type and those which are of the treatment and care type. Further, ample latitude must be left for the different circumstances, problems and programmes of various countries with respect to the matter whether a general service may consist of one unified or integrated service, or whether it may consist of co-ordinated services of two or three specific types. Apart from the plan which might be developed in one country or another, in which all of the health or medical services are integral parts of one service, there will be circumstances under which a country may have its general medical services provided for most people through a contributory

social insurance, supplemented by a tax-supported medical assistance service for needy and other marginal groups, and still other countries in which the contributory social insurance method is not merely co-ordinated but integrated with the tax-supported medical services by the device of having tax funds used to pay equitable premiums into the social insurance system on behalf of needy persons for the benefits furnished through the social insurance system to those who acquire their rights through the contributory method.

The CHAIRMAN. Would any of the other members on the committee on medical care like to say anything?

Mr. PERROTT. I would just like to emphasize what Mr. Falk touched upon; that the committee was in agreement that health services particularly should be comprehensive not only in the scope of the service—adequate service of all kinds necessary to preserve the health of the population—but comprehensive also from the point of view of population covered; that is, ideally, everyone in the population should be eligible for adequate health services and those services should be available to everyone, not on the basis of ability to pay out of private income or on the basis of acquiring some insurance status, but as a goal available to everyone without any questions being asked—available on the basis of the disease. I think that was one of the points of the discussion on which there was pretty general agreement.

Dr. HEAGERTY. Mr. Falk and Mr. Perrott have said so well everything that I had in mind, that it seems scarcely necessary for me to attempt to add anything to their remarks. I am afraid that in some of the discussions that have taken place, it might be thought that my attitude was somewhat obstructive, but of course we are all approaching these subjects from the angle of our own individual problems. I have in mind the health insurance plan that we are building up in Canada. Were we one single unified political organisation, the formulation of a plan would be a comparatively simple matter, but we have nine individual provinces—I might almost say nine countries—to consider. We have a medical profession that has been very co-operative but which is not completely sold on the idea, let us say, of group practice. We feel that if health insurance is adopted in this country—and I hope it will be—we will have individual practice, private practice, group practice, health centres, and health units in which medical care will be provided. That variety of provisions is not altogether desirable, but in order to make progress we have been obliged to make concessions to all those various groups that have ideas in regard to health insurance. In spite of our deliberations and our close attention to all the multiplicity of details that have been brought forward, it will not be possible, I believe, to draw up a comprehensive plan that will cover every possible eventuality. I can perceive, for example, that many of the problems that confront us will make themselves evident in the United States. On the whole I think that your committee has done excellent work and I am particularly pleased that our work will not terminate now but will continue and that we shall have advisers who will give us assistance.

Mr. RAGGI. I should like to get a copy of the report of the sub-committee, because I have been instructed by my Government to draw up a social insurance plan quickly. There is a question which interests me extremely, but to which I have not yet found an answer. It is the problem of excessive recourse by patients to medical benefits and the possible ways of keeping this abuse in check. One method which is followed in various countries, Switzerland for example, is to make the patient pay part of the cost of his treatment. I do not know whether the sub-committee has considered this problem or has any suggestion to make as to the best way of solving this problem; whether a limit should be set for medical benefits or reliance should be placed on educating the insured person, and so on.

Dr. ETCHEBARNE. We have not dealt with this question at all, because as Mr. Pigeon has said, all that concerns us is that all sick people should be entitled to medical care under a system of social insurance. It is for the medical services to decide whether anybody is abusing his right or not. In my judgment however, it is not possible to draft regulations on this point. In any case, to-day we have agreed that persons who need it have the right to benefits.

Mr. REBAGLIATI. In principle medical benefits should be free and available to the whole population. It is not to be contemplated that because fraud may occur, the innocent are to suffer with the malingerers. In this connection, I would like to relate an anecdote. There was a hospital (not in Peru) the medical director of which was not very zealous in the performance of his duties; he simply asked his assistant each morning what had happened during the night. One morning

he asked this question, and the answer was that there was nothing except that the malingeringer died.

The CHAIRMAN. Is there any further discussion?

Mr. SARATVA. I do not know whether we are going to follow this all through, but I would just like to know if medical care covers also providing medicaments.

Dr. ETCHEBARNE. In discussing this point, we referred to an absolutely complete medical service, including hospital care, medicine, dental care, care of infants, etc. Moreover, as Mr. Falk said, medical care must not only be curative, but preventive. If insurance finds do not direct their medical policy towards prevention, their failure is assured. So we included everything.

The CHAIRMAN. Is there any further discussion?

Mr. STEIN. We will circulate the minutes of the sub-committee as a confidential document. I was very much interested in Dr. Etchebarne's statement. We understand that our friends from the United States are slightly at a disadvantage in this field. You are in splendid isolation in the sense that the organised medical profession is not 100 per cent. on your side; that is not the case in the other countries. We drafted Part IV, Medical Care Services, with the deliberate intention of exciting discussion. Here is a precise question directed especially at Mr. Perrott. Do you believe that the most optimistic, most extended concept of "health service" may go so far as to cover fully and completely individual medical care?

Mr. PERROTT. Yes, certainly.

Mr. STEIN. I will explain my idea. Full medical care, as all the committees which have studied the question have shown, requires about 3 or 4 per cent. of the national income. We know this. Do you believe that there will ever be, in a country's budget, a provision for medical care of 3 or 4 per cent. of the national income? That is what is needed, and that is probably why you have a health insurance bill in Canada, because even with the utmost optimism you could not conclude that in 1945 there would be such a shift of public money towards the Health Department that all needs would be taken care of.

Mr. PERROTT. If I understand the question correctly, you are asking if I believe that as a practical matter it is likely to be feasible to get any legislative body to appropriate a sum of 3, or 4 or 5 per cent. of the national income for health services in any reasonable time, and I should say that in any case it would be much more feasible to advance through the method of the pay-roll deduction—that is health insurance—than it is to contemplate in any reasonable time getting revenue from general taxation of the order of 4 or 5 per cent.

The CHAIRMAN. Is there any further discussion on the question of medical care? If there is no further discussion, we shall go to the next part of the Agenda, Part V.

V. EMPLOYMENT SERVICES

OBJECTIVE

501. Employment services should actively promote effective use of the material and human resources of the nation by bringing together, with the least possible delay, persons seeking employment and employers seeking labour, matching the respective abilities and requirements as exactly as possible.

METHODS

502. In pursuit of this objective, the national employment services should:

(a) Maintain a network of employment offices, consisting of a central office and regional and local offices, with a system of rapid inter-communication.

(b) Keep complete and up-to-date records of employment opportunities and available labour.

(c) Develop and maintain facilities for the placement of (i) handicapped workers; (ii) farm workers; (iii) juvenile workers; and (iv) professional and technical workers.

(d) Certify unemployment for the purposes of unemployment insurance and assistance, and help to minimise the necessity for paying out unemployment insurance and assistance benefits and allowances.

(e) Help to develop methods of selection and referral to training, retaining and rehabilitation.

(f) Encourage occupational geographic mobility by assisting unemployed persons with little or no near prospect of employment to transfer

from one area or occupation to another where suitable employment is available.

(g) In co-operation with education services and other specialised agencies, and in consultation with employers and trade unions, conduct, supervise or promote education, vocational guidance and training for young persons, rehabilitation and retraining for handicapped workers, and all arrangements for apprenticeship and vocational and technical training and retraining inside and outside the plant.

(h) Conduct and promote general and detailed research on problems of employment and employability.

Mr. STEIN. That is not for discussion.

Mr. COHEN. I should like to make a general observation concerning Part IV in relation to Part V. If we are thinking about the approach that is used in this document, namely, the classic approach in relation to some of the new concepts of social security, it is important to stress here the constructive value social security services have in the prevention of wastage and in the general increase in the national income and its value to the community as a whole. For instance, this very section on employment services is worthy of inclusion because the employment services are a specific indication that services of a social security nature do provide to the worker, to the employer and to the community as a whole something which indicates a willingness to minimise unemployment and reduces the need for the particular services under social security.

Similarly, I hope that the Office will take note of, and express in any material that is developed, the constructive advantages of the preventive aspects of health, and the advantages in minimising the wastage in human man-power that is occupied in sickness and disease and thus making for a greater number of individuals who can produce the goods and necessities that make for a high level of national income. Briefly, I think that it is essential and worthy, perhaps, of even a separate section that the income maintenance services and the medical care services have a constructive aspect. The costs of social security are not a reduction of the national income, taking away from the individuals something which they would otherwise have to spend for productive services, but they truly do increase the national income, minimise time lost in unemployment, increase productivity and make for a more efficient and dynamic economy, which is one of the essentials for the development of an expanding economy.

The CHAIRMAN. Part VI.

VI. JOINT UNDERTAKINGS

*Internationally Established Principles**

601. Principles embodied in International Labour Conventions and Recommendations:

(a) Equality of treatment for national and foreign workers as regards social insurance and workmen's compensation;

(b) Maintenance of rights in course of acquisition and rights acquired with compulsory pension insurance in case of migration from one country to another.

OBJECTIVES

602. The International Labour Organisation should, on the resumption of international intercourse, take steps:

(a) To secure the application of principles already established, by all countries having social insurance schemes;

(b) To extend the principle of equality of treatment to social assistance, possibly subject to minimum residence conditions;

(c) To study the possibility of developing special international social security services for such groups of international transport workers, notably seamen, for whom adequate continuous protection is difficult to organise on a national basis;

(d) To develop mutual aid in administration of social security services:

- (i) pooling administrative experience;
- (ii) co-operative research projects;
- (iii) statistical standardisation;

* International Labour Code, pp. 299-311, 356, 360-370.

- (iv) exchange of employment statistics with a view to rationalising migration;
- (v) maintenance of international staff of administrative, medical and actuarial experts, available to advise governments and administrations individually.

Mr. ALTMAYER. I wanted to suggest that we might include the possibility of international loans for the promotion of social security, particularly in connection with the financing of expensive equipment under the various health service programmes. I merely mentioned that possibility in a speech I made on 12 June,* in which I listed some of the steps that I thought could be taken to promote international co-operation. I said:

In addition to such reciprocal agreements (that is, an agreement relative to the preservation of accumulated rights), provision should be made for loans to nations inaugurating social security systems requiring the construction of buildings and the purchase of equipment. This is particularly important in the health field. Besides having a powerful influence upon the development of international good will, social security loans can afford opportunities for safe and useful investments of funds. Such loans can be amply secured not only by the buildings and equipment which they finance but also by the continuing income derived from the social security contributions. Moreover, in many cases such loans would be used in part for the purchase of equipment in other countries and thus stimulate international trade.

Mr. REBAGLIATI. On behalf of the institution which I represent, and taking on myself a duty which is not mine, I must inform the committee that Mr. Altmeyer's words approve and give generous effect to a long-standing proposal of Peru. Dr. Salvador Allende, at the New York Labour Conference, explained the desirability of loans of this kind. This is an example of the good neighbourliness which presides to-day over the relations between United States and the other countries of the continent.

Mr. LOPEZ ARTETA. I also should like to express my satisfaction at hearing Mr. Altmeyer propose the granting of international loans, especially for countries which, like my own, are economically weak and are now engaged on a programme of this kind.

Mr. RAGGI. I would like to join with my colleagues in congratulating Mr. Altmeyer.

The CHAIRMAN. Is there any further discussion on this Part VI? Is there any further business before I conclude?

PART D—MINUTES OF THE SUB-COMMITTEE ON MEDICAL CARE SERVICES

Members: Dr. Miguel Etchebarne, Chairman, Mr. Lopez Arteta, Mr. I. S. Falk, Dr. Edouardo Grove, Dr. J. J. Heagerty, Mr. George Perrott. Mr. Allon Peebles, Director of Research and Statistics, Department of Labour, at Ottawa, Miss L. Bodmer of the International Labour Office staff attended as technical adviser.

FIRST SITTING, 11 JULY, 1943 (3:00)

Taking the chair, in the temporary absence of Dr. Etchebarne, Dr. Heagerty read from Part IV of the Plan of Discussion and asked for discussion.

IV. MEDICAL CARE SERVICE

Character of Health and Medical Care Services

GENERAL

401. Medical care services:

- (a) *Meet need of individual for care given by members of medical and allied professions with a view to conserving and restoring his health, preventing aggravation and alleviating suffering;*
- (b) *Are regulated by law;*
- (c) *Are administered by national or local governments or special institutions in interest of public or group they serve;*
- (d) *Are secured by contracting with or employing members of medical and allied professions.*

* For full text, see Part F.

NOTE.—Refund system not a medical care service (refund system: merely pecuniary aid toward the cost of medical care obtained and paid for by the beneficiary directly from private practitioners and public or private agencies).

Dr. Heagerty suggested including in the title of Part IV either the words "preventive medicine" or "public health service".

Mr. Falk thought it desirable to refrain from the use of the term "public health", which had a definite meaning, and suggested the title "Health and Medical Care Services".

Dr. Heagerty agreed to this general title and proposed the sub-heading "Character of the Services" instead of "Character of Medical Care Services" to indicate that the plan also covered community public health services.

Mr. Perrott noted that this latter proposal would involve some recasting of the text. Some items in paragraph 401, for example, would have to be expanded to make it clear that other than individual services were included.

Miss Bodmer pointed out that the definitions in paragraph 401 referred only to medical care services, that is care given to individuals. References to other health services were made later in the text.

In reply to a suggestion made by Dr. Heagerty to replace the word "services" by the word "benefits", because this was a term used in connection with insurance, Mr. Peebles called attention to the fact that "benefits" relate only to social insurance while "services" is a wider term.

Mr. Falk wished to retain the word "services" in the general heading which should read "Health and Medical Services" and suggested as a sub-heading "The Character of Medical Care Benefits", which would apply to the text of paragraph 401.

Miss Bodmer proposed "Medical Care and other Health Services" for the general heading.

Dr. Heagerty wished it to be made quite clear that preventive services as well as curative treatment were included. He feared that "health services" might be misinterpreted as there were hundreds of types of health services, and so he would have preferred "Preventive and Curative Medical Services". The medical profession in Canada, he said, believed that they could carry out preventive services better than the established public health departments and wished to take over the tuberculosis sanatoria, mental institutions, etc. and place them in the hands of the health insurance commission.

Dr. Grove thought there was a confusion between "medical services" and "health services". The former should include curative and preventive care, the latter deal with health education, propaganda and other such matters.

Dr. Etchebarne (who then took the chair) wished to emphasize the importance of preventive medical services, the introduction of which in Chile had had a marked effect in lowering mortality especially among children. He saw no difficulty in the question of terminology; the discussion here was about medical care services, both preventive and curative.

Mr. Lopez Arteta said that in Ecuador medical assistance was not only given when a person had fallen ill, but intervened before the illness occurred. The main point was to make it clear that preventive action was the objective.

Miss Bodmer asked whether subparagraph 401 (a) "conserving and restoring health" did not cover the point.

Mr. Falk replied that the intention was clear but that the problem was to find an appropriate title so that the scope of the document would be appreciated. It was important to find the right title lest the document be misunderstood from the title.

Mr. Peebles then suggested "Curative and Preventive Health Services," while Dr. Etchebarne proposed "Preventive and Curative Medicine."

Both Mr. Falk and Mr. Peebles stated that the word "health" was more comprehensive than "preventive services" because it embraced such measures as public health education, services in the field of nutrition, and vocational rehabilitation services, by which an individual could regain his health and again become a productive member of the community.

Dr. Heagerty then raised the question as to the full meaning of the term "medical services." Would these cover also dental and other services?

Mr. Falk explained that in the United States they had for years been using the phrase "medical services" in both the narrow and the wider sense, the latter including dental, nursing, hospital and other allied services, and that these services were very happy to be included in the term "medical care services."

The Chairman indicated that in Latin America also the term was understood in a very wide sense.

Miss Bodmer then read the following definition of health services and medical care services prepared by the I. L. O.

DEFINITION OF TERMS

(1) *Health Services.* All measures aiming at the restoration, conservation and promotion of health by means of services rendered individual persons or groups of persons and organised by local or central government authorities or special institutions and regulated by law.

(a) Medical care services: those among the health services as defined that provide for curative and preventive care given to individuals by members of the medical and allied professions:

(i) curative care: given with a view to restoring health, preventing aggravation and alleviating suffering in the case of an individual afflicted by ill health;

(ii) preventive care given with a view to conserving and improving the health of individuals when threatened, and

(b) Other or "general" health services. Those among the health services as defined that provide means to a group of individuals to conserve and protect their health before the risk of losing health materialises, whether given by medical or allied professions, or otherwise.

(2) *Environment hygiene.* Measures that aim at improving conditions of environment necessary to the conservation of health but not involving individual relationship.

In reply to a question raised by Dr. Heagerty, Mr. Perrott explained that according to the definition medical care covered both curative and preventive care given to individuals, while other preventive health services were taken care of under subparagraph (b) of the definition.

The Chairman concluded that there seemed to be general agreement that the term "health services" should include everything.

Mr. Lopez Arteta asked whether they were dealing with services under a social insurance system or with national public health services. He thought that social insurance was meant in this case.

The Chairman replied that social insurance was one part only of the social security programme. The relation between the medical services of social insurance and the services of other branches of social security had to be kept in mind.

Mr. Peebles thought that the content of Part IV would be met by the heading "Health and Medical Services," or some such terms, followed by the definition which had been read by Miss Bodmer. This was agreed to. The discussion then turned to the text of subparagraph 401 (a).

Dr. Heagerty suggested deleting the words "preventing aggravation" in the third line, which seemed to him superfluous. Mr. Perrott and Dr. Grove agreed to the deletion.

Dr. Grove proposed substituting at the end of paragraph 401 (a) the words: "with a view to preventing disease, conserving and restoring his health and alleviating suffering."

The Chairman said that in Spanish the term "conserving and restoring health" included preventive medicine.

Mr. Falk wished to retain the words "preventing aggravation" or some similar, more clearly worded phrase as three different problems were involved, first, the positive aspect of conserving health; second, that of restoring health by the curing of illness; and finally that of preventing aggravation, which implied a definite obligation to see that services were available immediately in order to prevent the illness from advancing once it had started.

Mr. Lopez Arteta agreed that there was a difference between the preventing of aggravation and the restoring of health and that this difference should be taken into account in the text.

Mr. Perrott had no serious objection to the retention of the reference to aggravation but thought that the English term might confuse readers as to its real meaning. Perhaps a more generally understood term could be found.

Mr. Falk then proposed adding in paragraph 401 an explicit reference to hospital services by inserting in sub-paragraph (a) after the words "medical and allied professions" the words "and by hospitals and other medical institutions," and by adding at the end of sub-paragraph (d) "and by arranging for hospital and similar institutional services." This addition would make it en-

tirely clear that the plan was not restricted to services provided by practitioners but also applied to hospitals and other institutional services which were not covered by the phrase "medical and allied professions."

Dr. Heagerty felt that this might make it necessary to specify all the benefits that might be covered by the term "medical care services." He had thought it was understood that hospitals as well as other services such as obstetrical and surgical treatment were included. A general term seemed preferable.

Mr. Perrott favoured a specific reference to hospitals as they had to use the existing system and make contracts with the hospitals.

The Chairman remarked that the Chilean use of the term "medical care services" was very comprehensive and included not only medical care but dental care, pharmaceutical supplies, hospital treatment, etc.

Miss Bodmer pointed out that "allied professions" was meant to cover all the various professions concerned but that an enumeration of the services included had been avoided because the meaning of medical care might expand in the future. It would, however, be useful to insert a specific reference to hospitals.

Dr. Heagerty agreed to the insertion of a reference to hospitals and other medical institutions. Turning to sub-paragraph 401 (b) he inquired what exactly was meant by the words "regulated by law." Did it mean that the activities of the medical and allied professions in respect to treatment were to be controlled, or did it mean that laws would be laid down for the provision of medical services?

Miss Bodmer replied that the provision of medical care services was to be regulated by law. By the insertion of this sub-paragraph, private voluntary insurance was excluded from the scope of the plan.

Mr. Falk suggested there might be a more desirable term than "regulated" to indicate clearly what was in mind.

Mr. Lopez Arteta was of the opinion that all public health and social insurance services required regulation by law.

Dr. Heagerty understood that the law would indicate the services that were to be provided. As to sub-paragraph (c) he suggested that the words "jointly and individually" should be inserted after "national or local governments."

The Chairman said that how the scheme would be administered depended on the conditions of government in each country. On the western coast of South America, for instance, there were centralised governments and therefore no problem existed between central governments and provinces or states. He admitted, however, that this problem existed in North America and had no objection to the addition of the words suggested by Dr. Heagerty.

Mr. Lopez Arteta remarked that in Ecuador there were local government units such as municipal governments for which these problems would therefore be relevant.

Mr. Falk discussing the Note to paragraph 401 suggested changing "refund system" in the note to "refund and indemnity system" as this was the older usage and would be better understood in the United States. He suggested also that the language of the note be somewhat moderated. Though the indemnity system should not be encouraged, it was not valid to say that it meant *merely* pecuniary aid towards the cost of medical care as it was also an insurance distribution of the risks among groups of people.

The Chairman then declared that they were all agreed as to the four subparagraphs of paragraph 401 with the addition of the reference to hospitals, the insertion in subparagraph (c) of the words "jointly or individually," and the substitution of a better term in subparagraph (b) for "regulation by law."

The Subcommittee then proceeded to discuss paragraph 402, which reads as follows:

Public General Service

402. Public general service implying:

(a) *Right of every individual covered by scheme to all care made available by the service, irrespective of payment of any individual contribution to cost of such service;*

(b) *Duty of every individual covered to comply with his obligation to contribute as citizen towards cost of service according to his ability to pay, subject to prosecution in case of default;*

(c) *Kinds of care defined by law;*

(d) *Financing by special or general taxation.*

Mr. Falk commented on the heading preceding paragraph 402 and made a general criticism of all the text which followed, raising the question of general terminology at this point rather than objections at each point as it was considered. As regards the heading "Public General Service" he pointed out that general medical services in the English-speaking countries cover two ideas: first, a service which is comprehensive with respect to the classes of service, and second, one which is applicable to a large part of the population. "Public Medical Service," however, means something entirely different as it applies to tax-supported services available to the public generally without regard to special conditions of eligibility. He thought that the committee was all of one mind in seeking an outline which would provide for services comprehensive in content. They were also all of one mind in wishing to see that comprehensive service was made available to the whole population, and they wished to develop the characteristics of a general medical service to be made available to the entire population. Now from paragraph 402 throughout the entire outline there were subdivisions with respect to two characteristics of a general medical service: one was concerned with the method by which this system was financed, and the other with the method by which services were furnished. The first led to the opposition between contributions and general tax financing; the other to the opposition between group and individual practice. Neither of these, however, presented any real opposition; one could have a general medical service financed one way or another, and public services also financed in either way. In practice this was the history of social insurance throughout the world. In the near future they would have not a true opposition in method of finance or method of practice, but would have both in each case. It was not correct to consider public medical services as an alternative to social insurance, or group practice as an alternate to individual practice. The scheme could be financed wholly by contributions, or in part by subsidies from funds raised from the general tax revenue, or wholly by general tax revenues, though he knew of no scheme except the Russian one which was financed wholly by general tax revenue. The New Zealand scheme was not completely noncontributory and in most countries, for instance in the United States and Canada, the outlook that there would be developed a general medical service financed wholly by tax funds was not realistic. As the outline would show, there was no practical possibility of having medical service wholly furnished by group practice, and no one would want individual practice entirely. He had therefore come to the conclusion that technical anomalies which were to be found in the outline could be solved and eliminated only by dropping the difference between public general services and social insurance. A general medical service might consider methods of financing as well as methods of providing service.

He added that these general considerations would become more evident when they turned to the details with respect to methods of paying for services. It was a fact in the United States that any combination of methods of payment was found in practice both under tax-financed public medical service and under insurance arrangements. Services for the needy, for instance, were provided both by group practice and individual practice. Doctors were paid on a salary basis or a capitation basis and by fees for services. There were various examples in which doctors practised in groups and individually and were paid under both systems on a fee-for-service basis, a capitation and a salary basis. As the means of paying for services, every combination was possible, practicable and desirable, whether linked with an insurance service or tax-financed. This was the situation in many other countries and would, of political necessity, be the condition for many years ahead. He stated these facts in the interests of getting the document to serve as a practical and useful guide. Apart from being an outline of a desirable objective, the plan was an outline of a wholly tax-supported system, furnishing all necessary services to the entire population through group practice. In its present form it would be only an ideal towards which they might work for a long time, but it might offer opponents of the scheme a vulnerable point. It would be very much easier to defeat the plan if they asked for an ideal plan than if they asked for a practical programme.

Miss Bodmer replied that there was evidently a misunderstanding. Nothing stated in the plan under the headings of "group practice" or "individual practice", or as to the system of payment was meant to apply exclusively to one or the other of these two forms of service viz., public general service or social insurance service. They could have group practice under a social insurance system and under a public general service and they could have any method of payment under either of these two systems.

She explained that paragraphs 402-405 referred only to the form of the service. In paragraph 402 the term "public" meant financed by general or special taxation, while the word "general" implied that the service was available to the greater part or the whole of the population without special qualifying conditions. On the other hand, paragraph 404 (quoted below), referred to medical services provided through social insurance under which contributions were paid and the right to medical care acquired by such payment. Neither "public general service" nor "social insurance" were defined by reference only to the method of financing. In fact, under a medical service based on social insurance, part of the funds would, in any case, have to be supplied out of taxation, as mentioned in sub-paragraph (c) of paragraph 404. Social insurance services also included public assistance for those not able to pay contributions.

The question of financing a medical service was dealt with in paragraphs 424-430.

In reply to a suggestion by Dr. Heagerty to replace "Public General Service" by "General Principles", Mr. Perrott pointed out that the principles in paragraph 402 were those implied by the words "Public General Service", and that the meaning was stated clearly.

Miss Bodmer remarked that paragraph 402 not only referred to principles—the whole outline dealt with principles—but to the form of the services. Under a general public service everybody was entitled to medical care irrespective of payment of any individual contribution; under social insurance there were those entitled to care as a counterpart to their contributions and those who received it as assistance.

Mr. Peebles then suggested the heading "Public General Services Based on the Following Principles".

Mr. Falk proposed proceeding as follows: if they were to relegate the method of financing as a subordinate and not primary criterion, the general heading of paragraph 402 should be "General Medical Service" and paragraph 403 would give indications for such service. In paragraph 404 they would specify the characteristics of contributory social insurance services, giving the indications for such service in paragraph 405.

Dr. Grove said that he had understood it to be agreed that social insurance was to include the whole population, with the exception of that part which was economically sub-marginal and could not make contributions to an insurance system; the government contributed part of the funds from general taxation with the obligation of giving the same quality of service as that under the general social insurance system.

Mr. Perrott pointed out that where a plan covered certain persons who paid a payroll-tax and others who were not able to pay such a tax, the system involved a needs test for the latter, and that it would be very desirable for medical care and health services to be available to everyone without any question of means or contributions. The system discussed under paragraph 402 was one under which a person, in the words of Beveridge, got health services because of the disease he had and not because of having paid a tax for health services.

Mr. Falk remarked that as the whole population was to be embraced under the scheme proposed by Beveridge, his scheme had characteristics of a public general service; as for financing it, £40,000,000 out of £70,000,000 was to come from public contributions.

Miss Bodmer thought Mr. Falk's objections referred mainly to the indications given in paragraphs 403 and 405.

Mr. Falk was doubtful about the function of paragraph 402. As far as he knew there were no public general services anywhere in the world, subject of course to developments of tax-financed or contributory schemes for medical services in other parts of the world with which he was not familiar. The form of service recommended had no practical significance and it would be a serious handicap if the present text were published by the I. L. O.

Mr. Lopez Arteta stated that they were talking about medical care as part of a general social-security system and that the plan was divided into two parts, one dealing with medical care for people covered by a social-insurance system and the other for those covered by a general compulsory public system. The two systems were different, as this outline recognised.

Miss Bodmer pointed out that the New Zealand medical-service scheme corresponded to that outlined in paragraph 402, and that several plans proposed by medical and other bodies recommended medical-care services on the same lines.

Mr. Falk stated that he did not interpret paragraph 402 as permitting of a public service side by side with social insurance. He thought a public service was

so broad and comprehensive that there would be no need for social insurance. If not, his whole argument fell to the ground.

Miss Bodmer replied that there might be a social-insurance scheme for medical care and a public general scheme for other health services which were not dealt with in this section. The idea was that such a public general service might also provide medical care and thus absorb all health services. It would be natural for such a service to cover the whole population as a scheme which applied only to a limited number of persons could not well be financed out of general or special taxation.

The Sub-Committee then proceeded to discuss the details of paragraphs 403, 404, and 405, which read as follows:

Public General Service (continued)

403. Indications for public general services. *Such services should be preferred*

- (a) *Because all prospective beneficiaries have same title to benefits;*
- (b) *Because provision for essential need should not depend on any qualifying conditions;*
- (c) *When it is desirable to integrate medical care services with other health services.*

Social Insurance Services

404. Social insurance services implying:

- (a) *Right to benefit of insured potential beneficiary as counterpart of payment of contribution, which should:*
 - (i) *be within limits of what can be paid out of moderate income;*
 - (ii) *not exceed average cost of services per capita;*
- (b) *Obligation of public authority to provide benefit:*
 - (i) *to those unable to afford contributions and to obtain care at their own expense;*
 - (ii) *proportionate to ascertained needs;*
- (c) *Financing from taxation:*
 - (i) *cost of care afforded to contributors so far as it exceeds contribution income;*
 - (ii) *cost of care afforded to non-contributors.*

405. Indications for social-insurance services. *Where services limited to a section of the population or to a specified area.*

Mr. Falk proposed modifications to the indications for "public general service" and for "social insurance services" in paragraphs 403 and 405 respectively. In paragraph 403 the words "such services should be preferred" should be qualified to read "such services may be preferred, especially as an ultimate objective, in the light of experience accumulated under the contributory system." This would be softening the criticism but it would still be criticism of the contributory system.

Dr. Perrott agreed with Mr. Falk's suggestion. He thought it important to indicate the desirability of abolishing the means test and including everyone in the population in the health services without regard to ability to pay.

The chairman said that the problem in Latin American countries was to unify all medical services and to provide for all illness whether the persons were insured or not insured. The Chilean system would be unified health service directed by a doctor, with a board of doctors, and giving all necessary care to the whole population. The only difference between insured and noninsured persons was that the former were entitled to cash benefits. All problems of health were so closely interrelated that dispersion was a waste of energy, as experience had shown. In some cases dispersion of services had led to a neglect of the preventive side. A case in point was paludism. This disease was very prevalent in one area of the North and the social-insurance fund had spend large amounts in trying to fight this scourge but without success. It was not until social insurance, assistance and health services had agreed on a common preventive program that they succeeded in ridding the region of paludism. If medical services were to be absorbed by public health services, the medical profession would have to be a vocation and doctors in Chile were convinced of the necessity of the socialisation of their profession. He did not know how far these ideas also applied to other countries but believed that the general trend was toward unified health services.

Mr. Perrott was very much impressed by the coordination between assistance, insurance, and the sanitary services which were all centered in one agency of

government, and thought that Chile was a long way ahead of the United States in this respect.

Dr. Grove remarked that up to the present, the Chilean Social Insurance Fund did not cover the whole population and this made it all the more necessary for all the health services to collaborate. He suggested that paragraph 403 (c) read "when it is desirable to weld medical care services with other health services" instead of "when it is desirable to integrate medical care services with other health services."

Mr. Lopez Arteta thought that preference should be given to a general service which was all inclusive, as proposed in paragraph 403.

Mr. Falk thereupon suggested solving the problem by modifying the language of both paragraphs 403 and 405, to keep them on an even keel. If they agreed on these points there would be only a few technical points to clear up. He therefore proposed the following text:

403. Indications for medical care through public services. *Such services may be preferred, especially as an ultimate objective, in the light of experience accumulated under contributory social insurance:*

- (a) *Because all prospective beneficiaries have same title to benefits;*
- (b) *Because provision for essential need should not depend on any qualifying conditions;*
- (c) *When it is desirable to integrate medical care services with other health services.*

405. Indications for medical care through social insurance services. *Such services may be preferred:*

- (a) *Where services are limited to a section of the population or to a specified area;*
- (b) *When wholly or principally financed by contributions, with or without partial financing from general tax funds;*
- (c) *Where the contributory mechanism already exists for other classes of social insurance.*

These additions to 405 were agreed to.

SECOND SITTING, 12 JULY (9:30 A. M.)

Discussion of paragraphs 404 and 405 (continued)

Dr. Heagerty took the chair in the absence of Dr. Etchebarne and asked whether there were any suggestions or objections to the Spanish translation.

Dr. Grove replied that the translation was very clear.

Dr. Heagerty asked whether social insurance services in paragraph 405 were meant to include all services.

Miss Bodmer pointed out that it referred only to medical care services, and Mr. Falk remarked that the paragraph dealt with contributory social insurance as the services in this case were financed by a contributory method.

Dr. Heagerty said that in Canada they were endeavoring to deal with health insurance by making it part of a general social security plan.

Miss Bodmer asked whether Dr. Heagerty would be satisfied if the words "indications for social insurance services" in paragraph 405 were replaced by the words "indications for medical care in the form of social insurance services."

Mr. Falk suggested "indications for contributory social insurance services." Miss Bodmer pointed out that social insurance was contributory by definition, and Mr. Falk then proposed the heading "indications for medical care services through social insurance" for paragraph 405. As social insurance implied a contributory system, this title would cover everything that was intended.

Dr. Heagerty asked whether paragraphs 403 and 404 were now satisfactory as they stood.

Dr. Grove wished to know the significance of the word "contribuyentes" in the Spanish text in paragraph 404 (c). Did this mean general taxpayers or contributors under an insurance plan?

Miss Bodmer explained that it meant insurance contributors.

Mr. Falk, referring to paragraph 404 (a) (ii) (contributions which should) "not exceed average cost of services per capita," said it seemed to him this was not a general characteristic principle of social insurance and came up later in other sections of the plan. In certain classes of social insurance schemes there was no direct provision for government contribution at all; the principles embodied in 404 (a) (ii) depended on supplementary contributions from general tax funds and as there was no plan on these lines existing at present in the

United States, he suggested deleting (a) (ii) entirely and considering the question at a later stage as a special method of financing. He then suggested that the Subcommittee go through the text as rapidly as possible, touching on certain matters for exchange of ideas and leaving more detailed work to be done later on by correspondence.

Mr. Perrott and Mr. Falk then suggested that the Subcommittee continue by correspondence and later have another meeting at some convenient place. It was agreed that a proposal to this effect should be submitted to the Plenary Meeting.

Mr. Falk pointed out that subparagraph 404 (b), like 404 (a) referred to previously, was not strictly an essential part of social insurance but rather a supplementary provision to bring in the needy by contributions on their behalf by public authorities. If 404 (b) were retained in this paragraph, as they were discussing general principles only, then in addition to points (b) (i) and (b) (ii), there should also be a point (iii), reading "*by payment of equitable contributions on their behalf*," that is, on behalf of the persons who cannot afford the contribution.

Dr. Heagerty then read paragraph 406 and asked if there were any suggestions.

Extension of Scope

OBJECTIVE

406. Comprehensive scope. *To provide medical care for all individuals whether or not gainfully occupied, including*

- (a) *Wage and salary earners;*
- (b) *Nonemployed gainfully occupied;*
- (c) *Nonemployed not gainfully occupied (unemployed, unemployable, and retired);*
- (d) *Housewives;*
- (e) *Children.*

Mr. Falk proposed substituting "self-employed" for "nonemployed" in subparagraph 406 (b). In subparagraph (c) the term "nonemployed" was correct, however. A subparagraph (f) should be added to read "other dependents."

Dr. Heagerty asked whether the text would cover outworkers; this was confirmed. He agreed to substitute "self-employed" for "nonemployed" but wished to have the words "gainfully occupied" deleted.

Dr. Heagerty then read paragraphs 407 and 408.

Extension of Scope

METHOD

407. Inclusion of adult residents under public general service. *All Adults entitled to care as residents (whether citizens or not):*

- (a) *Gainfully occupied or otherwise in receipt of income:*
 - (i) *paying special or general tax;*
 - (ii) *exempted and (or) paying token contributions;*
- (b) *Not gainfully occupied and not in receipt of income of their own:*
 - (i) *paying token contribution;*
 - (ii) *token contribution being paid by public authority.*

408. Inclusion of children under public general service. *Children obtain care derived from their parents' or guardians' title to medical care.*

Miss Bodmer explained that only public general services were mentioned in paragraphs 407 and 408 because the methods of including the various classes of the population under a social insurance scheme were already dealt with in Part III.

Dr. Grove reminded the Subcommittee that in accordance with the decision of the plenary meeting the words "members of the community" should be substituted for the word "residents," and suggested that in subparagraph (b) (ii) the words "token contribution" be replaced by "equitable contributions."

Mr. Falk agreed to the latter suggestion.

Miss Bodmer remarked that contribution in this paragraph did not refer to social insurance contributions, as the section applied only to public general services under which everybody who had sufficient income paid the special or general

tax. Those who had a very low income and were unable to pay the tax would pay a small sum as registration fee or token contribution and receive the same benefits as those paying the tax.

In reply to Mr. Perrott's question as to what was the purpose of having in (b) (ii) a general payment as well as a token fee, Miss Bodmer stated that the State would pay a token contribution for those unable to afford it out of their means, so as to give the idea that some contribution was being made on behalf of everybody.

Dr. Grove remarked that those unable to pay the tax would be paying a sort of symbolic contribution to make them feel they were paying something.

Mr. Falk thought it would be preferable *not* to restrict paragraphs 407 and 408 to public general services. In order to make them applicable also to social insurance schemes, the following wording could be substituted—

407. (a) (i). *Paying social insurance contributions or special or general tax.*

(b) (ii). *Equitable contributions being paid by public authority.*

408. Inclusion of children under social insurance or public general service * * *

Dr. Grove asked whether paragraphs 407 and 408 should not be combined, but Dr. Heagerty was of the opinion that they should be kept separate and that each section be made applicable to both forms of service, public general and social insurance services.

Dr. Etchebarne then took the chair and read the text of paragraph 409.

Kinds of Care Provided

OBJECTIVE

409. Comprehensive coverage of needs: *to provide all care required for the restoration, conservation and promotion of health that can be given by the medical and allied professions, and to integrate or coordinate this care with other health services. Involves:*

(a) *Complete curative and preventive care:*

(i) *constantly available and*

(ii) *rationally organised;*

(b) *Collaboration with other health services;*

(i) *by coordinating the services or*

(ii) *by welding them into one organic unit.*

Mr. Falk proposed giving precedence to the preventive aspect of care by making the following amendments: in the second line, the text should read "conservation, promotion and restoration of health instead of "restoration, conservation and promotion of health." In 409 (a) the first line should read "preventive and curative" instead of "curative and preventive." He further suggested adding in the third line of the introductory paragraph after "medical and allied professions," "hospitals and other medical institutions."

Dr. Grove thought that paragraph 409 was a very important one. The Chilean doctrine was to include all services in one entity and he suggested that the words "to unify or coordinate" be used instead of the words "to integrate or coordinate" in the introductory paragraph.

The chairman pointed out that this aspect was dealt with in 409 (b) (ii) by the words "by welding them into one organic unit." As there were no further suggestions to 409, he proceeded to read 410.

Kinds of Care Provided

METHOD

410. Constant availability of all care. *To make care available to all residents on same conditions irrespective of affiliation, local residence or other nonhealth factors, involves:*

(a) *Securing all care collectively by combined action of all insurance and assistance institutions and authorities (insurance-assistance method);*

(b) *Unified central and regional control of all health services (public general service method);*

(c) *Uniform regulation of terms of service for medical and allied professions.*

Miss Bodmer pointed out that the word "residents" would again be replaced by "members of the community."

In reply to a question by Dr. Heagerty as to the meaning of the words "irrespective of affiliation" Miss Bodmer stated that it meant irrespective of affiliation with any particular insurance institution. After a short discussion the words "membership in any particular insurance institution" were substituted for the word "affiliation."

Dr. Heagerty then pointed out the importance of making care available irrespective of local residence and of ensuring reciprocity as between different regions.

Dr. Grove remarked that the problem would not arise in the South American states where most countries formed one state only.

Mr. Falk suggested that, having regard to conditions in the United States and also perhaps in Canada, the text of 410 (b) might be amended to read "unified central and/or regional administration of all health services," instead of "unified central and regional control of all health services," in order to leave the door open for the many different conditions that prevailed in the several countries. The word "control," moreover, was not a happy choice. If the phrase were worded as proposed it would apply both to the United States and Canada.

In (c) of paragraph 410 the phrase "uniform regulation" needed to be made more flexible. It might read, for instance "uniform or appropriately adapted terms of service for medical and allied professions". The terms of service were not uniform for big metropolitan areas and for sparsely settled rural areas. There were also many different kinds of service.

He suggested also the addition of a further sub-paragraph (d) parallel to (c) which would read "rational arrangements for availability of services from hospitals and other medical institutions", having in mind different conditions in countries where hospitals were owned by public authorities and those where they were privately owned. In such cases, it would be necessary to make contracts with hospitals.

The Chairman then read the text of paragraph 411.

Kinds of Care Provided

METHOD (CONTINUED)

411. Basis of organisation. *Possibility of rational organisation of constantly available services provided by members of medical and allied professions:*

(a) Individually at their own offices (individual practice);

(b) *Co-operatively at centre equipped for purpose (group practice).*

In reply to a question by Dr. Heagerty as to the meaning of 411 (b) Miss Bodmer pointed out that group practice as defined covered all kinds of centres, not only public health centres.

A discussion then ensued as to the meaning of individual practice as distinct from private practice. Dr. Grove stated that private practice could not be admitted as an alternative to public health service, which would eventually entirely supersede private practice. Miss Bodmer pointed out that individual practice in this context referred not to private practice but to practice by doctors who attended beneficiaries of a medical service individually at their own offices.

Mr. Falk remarked that the difference was between the method of practice when speaking of individual and group practice, and between the method of payment when distinguishing between private practice and social insurance or other public practice.

Mr. Falk wished to strengthen the language in 411 as regards determination of group practice by making 411 (b) read as follows: "co-operatively at centres of various kinds especially in effective relation to hospitals, equipped for the purpose (group practice)". He had in mind that group practice involved many kinds of organisations and institutions. The important element here was that group practice must be in a hospital and/or must have a functional relationship to the base hospitals and larger organisations.

The Chairman then read paragraph 412.

Kinds of Care Provided

METHOD (CONTINUED)

412. Individual practice:

(a) *No considerable change in conditions now obtaining:*(b) *Unrational use of resources because:*(i) *duplication of equipment and staff;*(ii) *unequal distribution and dispersal of services;*(iii) *no organic division of labour;*(iv) *no contact and co-operation;*(c) *Co-operation with other health services unsystematic.*

Dr. Heagerty asked whether 412 was meant as a condemnation of individual practice. If this were the case he would be strongly opposed to it. He approved of group practice but thought individual practice was also necessary and should certainly not be done away with. The whole Canadian scheme was based on individual practice, though the beneficiary, instead of registering with a single doctor, could register with a group practice clinic. He felt that if individual practice was condemned, the medical profession would simply reject the whole plan. It might be better to put forward the advantages of group practice rather than point out all the disadvantages of individual practice.

The Chairman stated that in as much as they had settled the difference between individual and private practice, this paragraph could very well remain. The disadvantages enumerated were the natural consequences of individual practice as shown by experience.

Dr. Heagerty referring especially to 412 (b) (iv) which states that under individual practice there is no contact and co-operation, said that the Canadian draft health insurance scheme made provision for full contact and co-operation.

Mr. Perrott proposed redrafting 412 (b) as follows:

*"Non-rational use of resources where group practice is feasible, because * * *"* The rest of the text would indicate whether and when group practice was possible. There are many circumstances in which group practice is not feasible.

(At this point the sub-committee adjourned to the main room of the Conference.)

(The remainder of Part IV of the Plan of Discussion is reproduced below:)

Kinds of Care Provided

METHODS (CONTINUED)

413. Indications for individual practice. *Where limited number of beneficiaries scattered over densely populated area.*

414. Group practice implies:

(a) *Availability of service locally more limited;*(b) *Economy and efficiency owing to:*(i) *pooling of equipment, staff and other resources;*(ii) *pooling of knowledge and division of labour;*(iii) *close contact and collaboration;*(c) *Co-ordination with other health services facilitated.*415. Form of group practice. *Group practice may take form of:*(a) *Voluntary co-operation between doctors etc. at centre rented, equipped and administered by individual practitioners and members of other professions implying:*(i) *economy and efficiency as under 414 (b);*(ii) *no guarantee of rational and equitable distribution of services;*(b) *Insurance health centres maintained by insurance institutions implying:*(i) *economy and efficiency as under 414 (b);*(ii) *adaptation of number of participants and of size and location of centres to number and needs of beneficiaries;*(iii) *local centralisation of other health services at or near centre, as may be agreed on with other health authorities;*

(c) *Regional health centres maintained by regional authority, implying:*

- (i) *economy and efficiency as under 414 (b) and 415 (b);*
- (ii) *rational and equitable distribution of all services within whole region according to density and needs of population;*
- (iii) *proper balance between general practitioner and specialist services;*
- (iv) *local concentration of nursing, medical and other auxiliary services;*
- (v) *complete technical equipment for all specialist treatment including dental clinic;*
- (vi) *local co-ordination with other health services which may possibly be situated at the centre where regional authority is also responsible for these services;*

(d) *travelling clinics maintained by institution or authority running health centres, implying:*

- (i) *mobility of service;*
- (ii) *avoidance of delay in provision of care.*

416. *Indications for group practice:*

(a) *co-operative group practice: indicated where number of beneficiaries small and private practice extensive;*

(b) *insurance health centres for:*

- (i) *specialist treatment only; indicated where sufficiently large number of beneficiaries in areas of institution or institutions and few specialists;*
- (ii) *all care services, possibly also including hospital; indicated where sufficient number of beneficiaries but scattered over sparsely populated area with few private practitioners;*

(c) *Regional health centres for:*

- (i) *all non-institutional care service, with reference of cases needing institutional care to hospitals: indicated where non-institutional general and specialist practice strongly developed outside hospital system;*
- (ii) *non-institutional general practice and auxiliary services, leaving hospitals to deal with all institutional and all specialist treatment (in-and-out patient): indicated where general practice well developed while specialists mainly consultants and working at hospitals;*
- (iii) *all services, institutional and non-institutional, based on central hospitals with ring of smaller hospitals and out-patient and general health centres: indicated where unified regional hospital system with strongly developed general and specialist out-patient departments;*

(d) *Traveling clinics equipped for first aid, dental treatment, general examination and possibly other health services: indicated for sparsely settled areas with scattered population. Implies transportation arrangements for conveying patients to centres and hospitals.*

417. *Collaboration with other health services. To make available to potential beneficiaries all medical services and all other health services such as maternity and infant welfare, health visiting, immunisation, preventive periodical examinations, etc., by:*

- (a) *Co-ordination of the services;*
- (b) *Welding of the services into one.*

Safeguarding of Quality of Service

OBJECTIVE

418. *Quality of service. To obtain highest level of service while safeguarding both interests of prospective beneficiaries and those of professions participating, involving:*

- (a) *Conciliation of reasonable right of beneficiary to choose doctor with continuity of care and of health policy;*
- (b) *Adequate remuneration of participants, professional independence and discretion combined with rational use of resources;*
- (c) *Maintenance of high standard of professional skill.*

METHODS

419. Reasonable free choice and continuity of care *may be secured by individual practice or group practice on certain conditions.*

Individual practice:

- (a) *is contra-indicated if there is ad hoc selection of doctor;*
- (b) *is indicated if free choice of general practitioner as constant adviser with reference to specialist and other services.*

Group practice:

- (a) *is contra-indicated if there is:*
 - (i) *no choice of centre and doctor;*
 - (ii) *initial choice of centre and ad hoc choice of doctor;*
- (b) *is indicated if there is:*
 - (i) *initial choice of centre and of general practitioner as constant adviser with reference to specialist and other services, possibly taking account of patient's wishes;*
 - (ii) *provision for subsequent change of general practitioner (e. g. in case of incompatibility of character).*

420. Adequate remuneration, professional independence and rational use of resources *can be secured by:*

- (a) *Part-time employment of registered practitioners;*
- (b) *Full-time employment of doctors, etc.*

421. Registered practitioners *may be remunerated by:*

- (a) *fees for services rendered:*
 - (i) *indicated for specialists where few beneficiaries in densely populated area;*
 - (ii) *contra-indicated for general practitioner because temptation to give and demand redundant care and involving considerable accounting;*
- (b) *Capitation fee for each person in doctor's charge involving competition for clients; contra-indicated because temptation to give summary care, remuneration inversely proportionate to amount of time per beneficiary;*
- (c) *Amount proportionate to number of persons assigned to doctor (no competition for clients). Contra-indicated for reasons given under (b) and because no free choice;*
- (d) *Amount proportionate to hours worked (no competition for clients):*
 - (i) *indicated for specialists where considerable number of beneficiaries and sufficient income from private practice;*
 - (ii) *contra-indicated for general practitioner because no free choice, and dependence on private practice for securing adequate income.*

422. Full-time employment for salary:

- (a) *Indicated with free choice for general practitioner where whole population or great majority covered and non-political body administers scheme, because there is:*
 - (i) *incentive to maintain health of beneficiaries;*
 - (ii) *economic security, provision for death, old age, sickness, leave;*
- (b) *Indicated for specialists without free choice, where whole population covered, for same reasons.*

423. High standard of skill to be maintained by:

- (a) *Post-graduate courses;*
- (b) *Opportunity for young doctors to practice in rural centres and in Hospitals.*

Financial Questions

(if medical care services separately financed)

OBJECTIVE

424. Equality of sacrifice. *To distribute cost of service in such way as to ensure equality of sacrifice for equal rights and provide for those without means out of public funds.*

METHODS

425. Distribution of costs under social insurance system. *Regard to be had to following principles:*

- (a) *Insured persons: contribution not to impose hardship and not to exceed average cost of care, including that of dependents or at least of children;*
- (b) *Taxpayers (State) to bear cost of:*
 - (i) *care afforded to contributors in so far as the cost exceeds contribution income;*
 - (ii) *care afforded to those unable to contribute;*
- (c) *Employers: maintenance of health being deemed duty of community, employers' contribution under national insurance difficult to justify.*

PUBLIC GENERAL SERVICE

426. Payment according to ability to pay under public general service. *All residents pay according to their ability, as taxpayers:*

- (a) *Special tax for medical care or all health services, implying:*
 - (i) *establishment of special fund;*
 - (ii) *funds limited in principle by returns from tax;*
 - (iii) *definite source available;*
 - (iv) *beneficiaries kept aware of necessity for efficient and economical use of funds;*
 - (v) *assessment of income below general income-tax level possible;*
- (b) *General income tax, implying:*
 - (i) *no special machinery;*
 - (ii) *refined and progressive grading of taxation.*

427. Token contribution (registration fee) payable by all potential beneficiaries or all exempted from tax.

428. Indications for special tax where regional scope of medical-care service does not coincide with that of other health services.

429. Indications for general taxation where all health services under unified administration.

430. *Ad hoc* contributions of actual beneficiaries:

- (a) *Contra-indicated for lower income groups in any case because:*
 - (i) *hinder timely recourse to care;*
 - (ii) *greater handicap on lower income;*
 - (iii) *health approach should encourage preventive consultations.*

(b) *Indicated for upper income groups only where tax not graded according to ability to pay.*

Administration

OBJECTIVE

431. Unification or co-ordination and representation of all parties concerned:

- Unification or co-ordination of all health services;*
- Representation of beneficiaries;*
- Participation of medical and allied professions.*

METHODS

432. Unification or co-ordination involves:

- (a) *Central authority controlling all health services through:*
 - (i) *central government department; or*
 - (ii) *executive body representing beneficiaries, government and professions; or*
 - (iii) *independent appointed body of laymen and professionals;*
- (b) *Rational delimitation of regions for purpose of administering all health services through:*
 - (i) *regional health authority analogous to (a); or*
 - (ii) *officers or branches of central authority.*

433. Representation of beneficiaries involves:

- (a) *under social insurance scheme, representation of contributors:*
 - (i) *on executive body; or*
 - (ii) *on advisory bodies;*

- (b) *Under public general service, government represents beneficiaries.*

434. Participation of professions. *Technical efficiency and professional independence can be safeguarded against uninformed interference:*

- (a) *Under social insurance scheme by representation of medical and allied professions on:*

- (i) *executive body; or*
- (ii) *advisory bodies;*

- (b) *Under public general service by representation of medical and allied professions on:*

- (i) *independent executive body of laymen and technicians; or*
- (ii) *executive technical committees under central and local government authorities.*

PART E—CLOSURE

Remarks by the Chairman, the Hon. Ian Mackenzie, Minister of Pensions and National Health, Canada

Gentlemen: We have concluded our labours. We have completed the agenda placed before us by the International Labour Office, and we are ready to adjourn.

Before we do so, may I, as your chairman, express on behalf of those assembled our deep and sincere gratitude to the directors and staff of the I. L. O. for the splendid arrangements, and for the infinite number of great and small courtesies extended to all of us. Among the arrangements for which the I. L. O. is to be complimented are two items that should be mentioned particularly—the agenda and the personnel.

1. The agenda was a masterpiece of construction, whose merits we are better able to appreciate at the conclusion of our deliberations than we were at the outset. Its concise and orderly pattern kept our discussions closely to the point and enabled us, in the few days at our disposal, to cover the whole field of social security so thoroughly that I feel no important aspect of the problem was omitted from consideration.

2. The personnel consists of the outstanding authorities on social insurance of the Western Hemisphere. Most of you have high places in the official life of your respective countries, but you are here, not in official or representative capacities in behalf of your governments, but as individual experts in the field of social security. For me, as the one non-technical person among you, it has been an inspiration to follow the brilliant and scintillating play of minds as reflected in the debates.

In the several pleasant social events that were interspersed throughout the proceedings we became personally acquainted and I know, from the remarks of many of you, how greatly all have enjoyed the privilege of meeting and conferring with the outstanding men in their professions from other lands. It was a great achievement on the part of the I. L. O. to bring together from great distances so notable an assembly.

The timeliness of this gathering is unquestionable. The impact of the Beveridge report upon the consciousness of the whole world has stimulated the interest of governments and of peoples in the question of social security to a degree without parallel in the past. The fact that we were able to have Sir William with us was of inestimable value.

The great and stirring events that are taking place this very week-end in Europe, in Asia, and in the South Pacific have given to our deliberations a sense of grave and immediate urgency. The fighting men of many nations are laying down their lives for the preservation on this earth of high ideals of national freedom, personal liberty, democracy, and international relations founded on decency and honour. We believe the blows now being struck will hasten the end of the conflict—and bring closer the day when we shall be faced with the pressing problems of demobilisation and reconstruction.

The implications of that period have been forcefully stated in the concluding paragraphs of our agenda. With demobilisation will come the testing time that shall determine whether we have learned the lessons of co-operation in both the national and international planes. Then, too, will come the test of the

adequacy of our preparedness in the field that we have been discussing in this gathering.

Fortunately much of the machinery created for war purposes will be well fitted for our purposes, although sometimes it will have to be adapted to function in reverse. Thus our employment services, as has been pointed out, will have all the machinery and facilities necessary for the task of finding jobs for men, while continuing that of finding men for jobs.

The social services will have a great responsibility in those days. All the techniques of public assistance, of training and retraining, of placement and guidance—will have a vital part to play. It is true to say, therefore, that “a sound and well-integrated programme of social security will contribute much to ease the transition from war to peace.”

The purpose of the I. L. O. in calling this meeting at this time was to obtain from your deliberations the elements for the drafting of an “International Charter of Social Security” to be submitted in due course to an International Conference at which, no doubt, many of you will again be present. But there will be this difference: that then you will come as the accredited representatives of your respective countries with the authority to place the seal of national and international approval upon the terms of the Charter.

As I understand the purpose of this consultation now closing, I believe we are entitled to say that that purpose has been accomplished. We have examined succinctly but comprehensively the elements of the proposed International Charter in the two great fields of social security.

1. Income Maintenance, and
2. Medical Care.

As social security specialists you have not attempted to stray into the fields of trade and industry and their part in creating the employment base upon which social security must rest. But we have dealt here with the techniques of income maintenance and health service most thoroughly. Every aspect of those problems set before us in the agenda has been subjected to searching and critical analysis by the most expert minds in the Americas.

We have discussed the types of services, the part that insurance principles should play and the extent to which the financial provision should be from national revenues. We have considered the types of hazard to be insured, the rates and levels of benefits and their relationship to earnings, family needs, and the cost of living. We had a most stimulating debate on the extent and the method of assistance to children, especially in large families. We have recognised the social and national importance of universal health services.

As your chairman I have been impressed with the unanimity of ideals by which all speakers have been actuated. There has been among you a universal acceptance of the postulate so admirably expressed by our Deputy Chairman, Mr. Altmeyer, on a recent occasion, that social security is the embodiment of the chief moral concept which distinguishes the United Nations from the Axis powers—namely, the belief in the innate dignity and worth of the common man.

All here have been inspired by the sincere purpose to give effect to the universal desire of all human beings for a good life, including health, education, decent living conditions, regular and suitable work, and freedom from want.

Coupled with this singleness of purpose was a most stimulating and enlightening diversity of viewpoints about method and technique. The differences of opinion seemed to me in most cases to spring from the differences in the social and political conditions in our respective countries and the varying degrees of economic development.

In the exchange of opinion upon these differences of outlook we have all profited greatly by having our minds directed to aspects of the common problem that have been the subject of varied experience in the several countries represented.

Nothing has interested me more than the discussion as to the respective roles of the insurance method and the assistance method in a comprehensive system of social security. In my own department of government we operate a very broad system of security for a particular class—the veterans of our wars. The benefits are not given on the basis of cash contributions—as in the social insurances. Nevertheless I think they may be truly and properly described as having the essential moral and equitable basis of an insurance system. The contribution has been service to the state—sacrificial service involving heroism and devotion.

The benefits are exactly of the kind we have been discussing here—monetary pensions, medical care, training and retraining, placement, family maintenance, provision for old age—and so on.

All our contributory schemes call for a measure of support from the public treasury. In the concept that Sir William Beveridge has given to the world—the contribution of the insured person is chiefly significant as evidence that he has done useful and essential work in the upbuilding and maintenance of the national prosperity upon which he is entitled to draw in his time of need, through loss of employment, sickness, or old age.

The new trend in social security may then very well be towards giving greater recognition to the contribution that working men and housewives have made towards the creation of the national wealth and the national income by their daily labours in the industrial and business world, and relying less upon their cash payments into an insurance fund.

This seems to be implicit in the increasing recognition that is being given to the national and social importance of maintaining the family income and preserving the health of the individuals who make up the nation.

And so in our discussions we have shed light upon the essential terms that must be embodied in the International Charter of Social Security for which we aspire. When the notes of this consultation have been transcribed it will be possible for the staff of the I. L. O. to ascertain the ground that is common to us all and to draft a charter which at a later day—not too far distant we hope—can be laid before a representative International Conference for adoption.

The international significance of what we have been doing here is much greater than the mere interchange of national ideas as a means of helping each individual nation to better and improve its own social security plans by the comparative method.

Social security has a place in world order.

Our vice chairman, Mr. Altmeyer, a month ago set forth in language of admirable clarity some aspects of the international significance of social security. Let me review briefly some of the points he made:

1. Social security in any country is to the interest of all other countries, since it contributes to political stability and to economic well-being, and is, therefore, a pre-requisite of lasting peace.
2. Social security, by promoting a higher standard of living, tends to eliminate unfair international competition based upon low wages.
3. Higher standards of living increase purchasing power and stimulate international trade.
4. International cooperation can include not merely the exchange of ideas and of technical personnel, but should be extended to reciprocal agreements for protecting the worker's benefits if he moves from one country to another.

This last has been a special concern of the I. L. O., whose world leadership in this whole field we on this continent have every reason to appreciate. At the present moment we can all be thankful that the Office is taking the initiative in insuring that humanity's universal aspiration for social security may be realized in the immediate postwar period.

And so we say farewell.

You gentlemen are leaders in your own nations, bringing to the weary children of men this new message of hope, after the struggles, the hardships, and the disappointments of bleak and empty years. Not only is your leadership dominant in your own nations, but it is in the larger sphere shaping the achievements of the world of tomorrow. You are arrayed together in a common cause, a great crusade: simple justice for the common man.

To no greater task can any human being dedicate his or her life than to strive with diligence and sympathy and knowledge to the end that justice shall prevail, that many shall not perish, and that hope and sunshine and the laughter of little children shall gladden men's lives.

I pray that you do not give up this great crusade. Let us not flinch or falter, but as knights clad in the shining armour of faith, follow the gleam ahead to the journey's end—the accomplishment of a great purpose, that attainment of an ideal centuries old: Justice on the throne—Humanity on the march—the freedom of man and the liberty of nations—established for a great space of years.

So shall we together, with hope and courage and fortitude and devotion force the prison houses of men and look together in the effulgence of the new morning light from this rebuilt City of Man to the shining splendour of the Eternal City of God.

Mr. GOODRICH. I have taken advantage of my position as Chairman of the Governing Body to ask the right to be here as a guest at your proceedings,

and I should like to impose a little further, because I do not wish to let the time pass without expressing to you, Mr. Minister, and to all the members of the Consultation my very great appreciation for what you have done in coming here.

As the second nontechnical person in the room, Mr. Chairman, I should like to join you in expressing my admiration for the skill, expertness, terseness, and logic with which the debate has been conducted, and secondly, since I have been a spectator here, I think perhaps it is appropriate for me to comment on what a hard-working conference this has been; what a hard-working Chairman it has had and what hard-working members it has had. Once or twice during the conference it occurred to me to consider that while you were preparing for a future Golden Age of social security, you were working under conditions of discipline that rather suggested the Stone Age—or should I say a Stein Age"?—but you will understand that I say that with affection and admiration.

Now in the third place, I am very much struck, as was your Chairman, by the complete unanimity of agreement on the purposes of social security. That has been very striking in view of the very diverse national backgrounds from which the members of this group have come. Yet I should not be surprised at this, and no one here should be surprised at it, because the belief in the attainment of social security under conditions of freedom is, as is so finely said in the Beveridge Report, the thing which unites the United Nations and divides them from their enemies. A Montreal paper the other evening carried its story of your meeting under the heading "Democracies Plan Security". I think that this was a very appropriate heading, and as you have suggested this morning, Mr. Chairman, and as Mr. Stein suggested in opening the debates the other morning, this is a heading that could stand in the papers as perfectly appropriate even on the day when the paper carried the headlines of the glorious news of the invasion across the sea. The democracies planning security is part of the same business that is being done on the coasts of Sicily.

One further point: the International Labour Organisation is appropriately the instrument through which the democracies should be planning social security. Your presence in the Chair, Mr. Chairman, what you have so finely said to us this morning, and the presence here of the most distinguished experts in the field of social security from so many of the American countries, are all proof that you believe that it is the business of the International Labour Organisation to be preparing the international charter of social security towards which your deliberations have been tending. And I feel as you do, Mr. Chairman, the urgency of time as the events overseas are bringing it to us. These are great responsibilities, to prepare to carry into effect the promises made on social security in the Atlantic Charter, and we must not be too late. The International Labour Organisation must not fail in this responsibility. What you have done here, and what the staff of the International Labour Office had so admirably prepared here, are indication that in this important field the International Labour Organisation will not be too late, that it will be prepared to meet its great responsibility to the peoples of the world.

Mr. STEIN. I cannot let this meeting close without acknowledging the gracious comments of the Chairman on the Plan of Discussion, to which Mr. Maurice Stack and Miss Laura Bodmer have given much thought. We are pleased that our outline on income maintenance services and medical care services has, in general, stood the test of your criticisms and that we have in the record so many valuable suggestions from all of you which will be taken into consideration.

The CHAIRMAN. The meeting is closed.

(The meeting rose at 12.30 p. m.)

PART F—APPENDICES

I

RESOLUTION PROPOSED BY MR. REBAGLIATI (PERU)

The social security experts, having met in Montreal, on the initiative of the International Labour Office, declare:

(1) That their deliberations and exchange of experiences and methods are inspired by the principles proclaimed by the United Nations in the Atlantic Charter, where it is affirmed that

"they desire to bring about the fullest collaboration between all nations in the economic field with the object of securing for all improved labour standards, economic advancement and social security".

(2) That they recognise, duly appreciate and admire the unalterable decision of the United Nations to eliminate, to the extent of the capacity of human initiative and effort, the causes of social insecurity, misery, privation and anxiety, which arise from unsatisfied needs.

(3) That they express their faith and confidence in the victory of the United Nations, which will serve as the basis of new and noble principles of solidarity, neighbourliness, fraternity and social justice.

Montreal, 10 July 1943.

II

INTERNATIONAL COOPERATION IN ACHIEVING SOCIAL SECURITY

Address by Arthur J. Altmeyer, Chairman, Social Security Board, Washington, D. C., at American Labor Conference on International Affairs, New York, 12 June 1943

The Atlantic Charter has proclaimed the "desire to bring about the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labor standards, economic advancement and social security." The specific task now is to give practical application to that objective, both nationally and internationally.

International cooperation in the field of social security has long been of interest to technicians and scholars. But now it is an interest of whole nations—indeed, of the United Nations as a whole. Broad and comprehensive plans for social security are the subject of active interest in many countries. All of you are familiar, I am sure, with the comprehensive proposals introduced into the Congress of the United States last week by Senators Wagner and Murray and Congressman Dingell. The Beveridge report in Great Britain is paralleled by the Marsh report and the proposals of the Ministry of Pensions and National Health in Canada. Mexico has just enacted a social security program and is now taking the first steps to bring the law into operation. Bolivia is engaged in transforming and extending its present compulsory savings system into a broad plan of social insurance. Chili has a comprehensive scheme to extend its health insurance provisions. National interest in social security is evident in many other countries and is a growing demand of people everywhere.

This national interest has already resulted in the establishment of an international body in the Western Hemisphere to give leadership to national aspirations for social security. The Inter-American Conference on Social Security was organized in Santiago, Chili, last September. With the participation of representatives from 21 countries of the Americas and from the Pan American Sanitary Bureau and the International Labor Office, the Conference adopted 14 resolutions which summarize general experience and the best technical study of social security problems.

THE FUNCTIONS OF SOCIAL SECURITY

To devise a sound basis for international cooperation, we must be clear as to the functions of social security. The term "social security" was coined in the United States, and since 1935 its usage has spread throughout the world. The phrase is new, but there is nothing new about the fundamental concepts it proclaims. In its larger sense, social security represents the universal desire of all human beings for a good life, including freedom from want, health, education, decent living conditions and, above all, regular and suitable work. In its more specific sense, it means concerted effort by citizens through their governments to assure freedom from physical want and the fear of want by the assurance of continuing income sufficient to provide food, shelter and clothing, and by the assurance of adequate health services and medical care. The methods of achieving freedom from want have necessarily changed as economic and social conditions have changed, but the goal has remained the same.

There are some people who still believe that fear of want is the greatest stimulus to individual effort, and that removing that fear will weaken the main-spring of human endeavor. Too often this argument is advanced by those who themselves have never experienced poverty or who have been fortunate in surmounting it. They would be the first to deny that their own good fortune deprived them of initiative or desire to work. The democracies of the world have staked their future on the premise that it is hope, not fear, which is the best stimulus and the strongest foundation for human happiness. Democracy

itself rests upon freedom of opportunity. Years of anguish have taught us that we cannot have real freedom of opportunity unless political freedom is accompanied by economic freedom. This, I believe, is the real explanation of the demand for freedom from want and freedom from fear of want.

Freedom from want does not mean that able-bodied persons are maintained in idleness. On the contrary, it means that human resources are protected from deterioration and wastage, and that families are protected from destitution and suffering because of circumstances beyond their individual control. Measures to maintain at least a minimum income in adversity must be accompanied by measures to prevent or minimize the conditions which cause interruption or cessation of earnings.

Affirmative measures to promote good health are essential to social security. A positive health program includes not only the control of communicable diseases, the development of environmental sanitation, and other activities generally included in public health programs, but also health education and facilities for the prompt diagnosis and treatment of physical and mental ailments in their early stages. There can be no sharp distinction between public and private health. The health of individuals depends upon community conditions, and the health of the community depends on the health of its individual members. Health has long been a matter of concern to all nations as sovereign states and as neighbors—witness the growth of quarantine measures and the universal interest in preventing the spread of contagious disease. Now, the interest in health is not limited to self-protection against contagion, but extends to the national and international importance of productivity and human well-being which derive from health.

Constructive efforts must also be made through adequate and comprehensive public employment service to provide conditions favorable for full employment, for the training of individuals for their jobs, for the retraining and rehabilitation of individuals to meet the new demands of changing industry, and for assuring the mobility of labor.

It is essential to realize, however, that even with full employment and with a comprehensive program of prevention, the most common causes of insecurity will still remain and the need for social security measures will persist. Human beings will still become sick or disabled, will die before their time, and will grow old. And they will still suffer from some unemployment, because this is an unavoidable characteristic of a system of free enterprise. All of these hazards, when they eventuate, result in loss of current income to workers' families. We must make certain that workers' families are protected against loss of current income to the extent necessary to prevent physical want. In so doing, a nation protects its most priceless natural resource, the moral and physical vigor of its citizens.

Thus, it is evident that social security means not only freedom from want but conservation of manpower. Human beings are both consumers and producers. As consumers they are interested in freedom from want; as producers they are interested in preserving and increasing their productive capacity. As both consumers and producers—as citizens—they recognize that full consumption is a prerequisite to full production and full production is the basis for full consumption. But it would be a mistake to assume that full production or full employment or increasing wealth in themselves mean abolition of poverty or of want. While these conditions are essential, abolition of want also depends upon effective distribution and the assurance of continuity in the distribution of the necessities of life. Social security distributes income among individual families over periods of non-earning as well as over periods of earning; it is a system to provide access to necessary services; it is a system to assure income and services. All of this is necessary in any human society in which livelihood depends principally upon employment and wages, if physical want and fear of want are to be prevented and if that human society and its economy are to be made secure.

Social security as a specific program is in essence simply a social budgeting of costs already being borne by the individual citizens of a nation. Whether they have a social security system or not, the citizens of every nation are confronted with the economic burdens of old age, premature death, physical and mental disability, sickness, and unemployment. These risks affect individual citizens unevenly and unpredictably. Apart from its preventive functions, a social security system spreads these costs more evenly among groups of people and over periods of time, thereby making bearable costs and losses which otherwise are unbearable and lead to destitution and want.

The foremost feature of any comprehensive system of social security is contributory social insurance. Under such a system prospective beneficiaries and their employers—and in many instances, Government—make contributions to a common fund during periods of earning; from this fund payments are made when an insured risk actually materializes. In principle, contributory social insurance is as simple as that. It is a method of organized thrift whereby contributors purchase protection against common hazards which otherwise would result in want. It utilizes the well-known techniques of insurance, and in so doing, as Mr. Churchill said “brings the magic of averages to the rescue of millions.”

Through contributory social insurance, Government affords an opportunity to all citizens to purchase basic protection. For lack of means, facilities or other circumstances beyond their individual control, large numbers are otherwise unable to obtain insurance for themselves. Because social insurance undertakes to assure only a minimum degree of protection, private insurance, individual savings, and other measures of thrift are not discouraged or supplanted. On the contrary, all citizens have a greater incentive to strive for a higher degree of individual security because the governmental system gives basic protection irrespective of the additional protection which an individual citizen may acquire.

In order to be most effective, social insurance must protect all citizens against all major hazards causing want. Since such a system pays benefits on a predetermined basis, related either to past contributions or earnings or both, the benefits paid may not always be sufficient to cover all actual needs. A contributory social insurance system, established as a first line of defense against want, needs a second line of defense in the form of public assistance granted on the basis of actual need of the individual. Modern public assistance differs from poor relief in that it is paid in cash which the individual is free to spend to cover his needs, instead of in the form of groceries and other supplies.

INTERNATIONAL INTEREST IN NATIONAL PROGRAMS

Each nation can and should develop its own social-security system, adapted to its particular needs and its national traditions. It is not necessary for one nation, before establishing its own system, to wait until other nations act. The question may therefore be asked why it is desirable or necessary that there be international cooperation in promoting social security. The answer is very simple. Social security in any country is to the interest of all other countries, since it contributes to political stability, to economic well-being and is the embodiment of the chief moral concept which distinguishes the United Nations from the Axis powers—namely, belief in the innate dignity and worth of the common man. The development of social security is essential both to the internal security of nations and to the international security and peace of the world. Thus, any nation, no matter how well developed and effective its own system of social security, has a deep interest in the extension of social security to all other nations.

INTERNATIONAL COOPERATION

Social-security systems have demonstrated their efficacy in promoting higher standards of living. I myself have seen how the health programs of South American countries are improving the whole basis of living in those countries. A higher standard of living inevitably means a more effective demand for goods. What is equally important, so far as international relations are concerned, is that the elimination of low standards of living means the elimination of unfair competition based upon the exploitation of human beings. It is true that a nation with a high standard of living is more efficient than a nation with a low standard of living. It is also true, however, that individual producers in a nation with a higher standard of living are at a competitive disadvantage as regards the producers in a country with a low standard of living whose workers are exploited, leaving the poorer nation as a whole to suffer the consequences. Raising the standards of living where they are relatively low is essential to a durable basis for mutually profitable international trade. This is a goal to which social security will contribute greatly.

Social security thus affords a fertile field for international co-operation, since there is a real community of interest among all nations. International co-operation in the field of social security should of course include the exchange of specific information and practical experience dealing with the extent and importance of

hazards causing destitution, and with specific ways and means of providing protection against them and of reducing their prevalence.

We in the United States are greatly indebted to other countries whose wealth of experience was made available to us when our Social Security Act was being planned. There is much we have learned and have yet to learn from their experience, and I believe there are some things which they can learn from our experience.

International co-operation should include the exchange of technical personnel to enable each nation to take full advantage of experience and technical skills developed in all others. International co-operation should also provide for the protection of benefit rights acquired by citizens of other co-operating nations in case of migration. Indeed, international agreements should go further and provide for the exchange of benefit rights so that a worker moving from one nation to another can have his accumulated benefit rights go with him. Fortunately, much work on this problem has already been done by the International Labor Office. As an illustration of what can be done in this field, there has already been worked out an agreement which is now in effect between the United States and Canada for the reciprocal certification of unemployment insurance benefits of individuals who go back and forth across the boundary line.

In addition to such reciprocal agreements, provision should be made for loans to nations inaugurating social security systems requiring the construction of buildings and the purchase of equipment. This is particularly important in the health field. Besides having a powerful influence upon the development of international good will, social security loans can afford opportunities for safe and useful investments of funds. Such loans can be amply secured not only by the buildings and equipment which they finance but also by the continuing income derived from the social security contributions. Moreover, in many cases such loans would be used in part for the purchase of equipment in other countries and thus stimulate international trade.

NEXT STEPS

International co-operation in developing social security could be achieved most effectively through agreements developed and consummated in accordance with well-established methods. The first step toward such multi-lateral conventions would necessarily be an international conference whose primary task might be the formulation of what in essence would be an International Charter of Social Security. In such an undertaking it would, of course, be necessary to take account of wide differences in levels of economic and social development among nations. Such a charter might, therefore, take form in a declaration of goals to be achieved and of principles to be observed, rather than in a code of specific provisions. Such a charter should also lay a basis for continuing co-operation among the signatory nations.

It is imperative, I believe, that we do not delay in taking all possible steps to promote social security through international co-operation. The nations of the world should be equipped to cope with the acute problems which will confront them at the close of the war. Among the nations which will be liberated from the Axis powers, the prompt reestablishment of social security institutions which have been destroyed will afford a means not only for administering relief but also for making the speediest transition from the period of international relief toward the period of national rehabilitation. The international distribution of the necessities of life and the encouragement of equitable international trade will be greatly facilitated if the population of the various nations have the means to purchase these necessities. Social security systems will help greatly in providing that purchasing power. Thus social security must be looked upon as an instrument to promote not only individual and national welfare but also human welfare throughout the world.

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VL EXECUTIVE DIRECTOR'S CONFERENCE WITH BUREAU AND REGIONAL DIRECTORS, CONTINENTAL ROOM, STATLER HOTEL, WASHINGTON, D. C., MAY 3-8, 1945

DIGEST OF DISCUSSION

Summarized by Division of Publications and Review, Office of Executive Director

In this summary, an attempt has been made to give the tenor and substance of statements by discussion leaders, regional directors, and other participants. In the exchange of opinion, many viewpoints were expressed which do not necessarily represent a consensus of the group and do not reflect established or anticipated policies. With this caution against misinterpreting individual statements of fact or opinion as the viewpoint of the Board, the summary is made available for limited distribution within regional and departmental offices of the Social Security Board.

Summary of the Executive Director's Conference, Continental Room, Statler Hotel, Washington, D. C., May 3, 1945

Conference objectives (Mr. Powell)

When planning some time ago for these meetings, we decided that it would be well to devote a larger part of our discussion to the immediate future than to operating problems. The events of the past few days and weeks have shown the wisdom of this decision, though none of us know that, by May 3, we would have reached a culmination of the European war.

We have given much time in the last few years to gearing our operations to the Nation's needs. We have tried to do our job with as few people and as limited materials as possible. In some respects we have come close to sacrificing quality. Working in a restricted situation we have been absorbed with details and difficulties of staff losses, inability to get replacements, and training new people. It is appropriate now to turn our attention to what we shall face in the next few months and years. We and the States shall have a lot more to do. State unemployment compensation agencies have recently been operating at a minimum rate, perhaps in some places below a reasonable minimum. In most States unemployment-benefit claims will probably rise several hundred percent.

Unemployment-compensation agencies will have to be practically remade. Some State people tell me they have disbanded training programs—the caliber of their staff is not good enough to form even a nucleus for expansion. In all likelihood the trend in public assistance will be up also. When jobs decrease with termination of contracts, claims for unemployment benefits and assistance increase; but at the same time more people will be available to do the job we and the States have to do. The chief difficulty of the States will be in getting money and in recruiting and training personnel in time to handle the increased volume of claims.

In looking at the job ahead, we should try to appraise what is left of the world. What economic organization can we expect? What are the conditions under which people will have to live? What are their prospects for steady work? Only by such inventory can we evaluate our recommendations and plans for future action.

Events in northern Italy and in German concentration camps seem to indicate that what we think of as western civilization has received a critical point in its progress—if we can even think of progress in light of happenings of the past 3 or 4 years. What can people do through government to make life a little more tolerable, a little more secure? How right have we been in thinking of the important role of our social-security programs?

It seems inevitable that we shall feel the backwash of this war in the next year or so far more severely than during the war itself. In this country nearly all people able to work have been working hard for several years and lots of money has been going into their pockets. Yet in a recent poll, a majority of the people questioned said that their savings were not enough to tide them over more than a few weeks of unemployment. We may have a tremendous reserve of purchasing power, but the question is how that surplus is distributed and whether the savings are in the hands of people who will need them during the next year or so.

Chester Lund has worked with Bureau directors and regional directors in developing a framework for these meetings which should provide opportunity for discussing matters of current importance and interest. We should consider

the agenda flexible enough to permit emphasis on problems which will develop from the events of the past few days and weeks. We are faced with expansion rather than contraction of the Board's activities in unemployment compensation, probably in public assistance, and inevitably in old-age and survivors insurance. The curve of claims for old-age and survivors insurance benefits has risen almost 60° in the last 3 or 4 months. When a half million persons eligible for benefits get out of war work and file their claims, can we handle their claims promptly and satisfactorily and with the consideration they deserve? Where can we get the people to do the job and how can we train them?

In the past 3 years we have built up attitudes of economy in field offices. We must not now relax our efforts to find the best and most economical way of doing our jobs, but we shall have to spend a lot more money and should place emphasis on quality of service rather than on economy.

We have no precise information on time schedules for demobilizing military forces or war industries. Instead we should consider several alternative possibilities and make sure that our plans, the results of our studies, and the conclusions we have reached are reasonably valid in light of developments that are clearer now than 2 or 3 years ago. We must decide whether what we have done is sound; whether our operating machinery is reasonably well adapted to the demands for expansion; and whether our plans for the future will meet the needs we can foresee.

Because of your efforts, this organization has done a job during the war which I would have thought impossible 4 or 5 years ago. We have maintained a high quality of service despite the limitation of our resources. With about a third of our prewar staff we have carried a workload about a third greater than before. Attitude, I think, is the most important thing in administration. The attitude of this organization has enabled us to take these things in stride and render a quality of service that we have every right to be proud of.

The time seems appropriate for a prayer of thanksgiving and a prayer for wisdom—thanksgiving that the European war is about over and prayer that we may have enough wisdom to serve the people of this country and indirectly all people of the world. God knows there will be need for service—need such as we have never seen before in our lifetime.

Mr. Bigge will pull down a backdrop for us so that we can see what we have to do in relation to economic conditions in this country and the rest of the world. Thus we can see our programs and plans in better perspective.

Current economic trends (Mr. Bigge)

The title reminds me of Recent Economic Trends, a series of studies written about 20 years ago. I shall not undertake that type of job or perhaps even provide the backdrop against which we can measure our job in social security. War always distorts the ordinary economy, producing what statisticians call aberrations. An attempt to develop a trend from present conditions certainly wouldn't give an accurate picture of what to expect in the next 5, 10, or 20 years.

What I plan to do is to discuss with you some of the recent economic thinking as reflected in some of the plans for assuring full employment. Most of these plans are still in the discussion stage—committees established to make plans for setting up an organization to prepare plans, and so on. But in discussing these plans we do get a picture of assumptions concerning economic conditions and trends. Everyone seems to agree that government in the years ahead—certainly a democratic government—must attempt to achieve full employment. Nobody seems to know when the machinery to guarantee full employment would start working, but there is no difference of opinion on the necessity for such action.

While we talk mainly of the immediate postwar period we must not think that we shall have an entirely new economy. We shall be facing the same kind of problems which we failed to solve after the last war. We were fighting the depression—waging war against unemployment—in the 1930's and adopted many drastic measures to do away with unemployment. Despite all we could do we had 8 million people unemployed when war activity started. If we are to achieve full employment we must obviously find some method more effective than anything tried in the past.

"Spenders" often tell us that we were too pessimistic, too reserved, too timid in the 1930's and didn't spend enough. They say we got full employment as soon as we began to spend for war. How effective is spending likely to be in solving the problem? William Adams Brown, Jr., in Future Economic Policy of the United States presents a dozen unresolved issues on which the people of the United States go in opposite directions toward two conflicting goals. We

want both full employment and individual freedom. Since we can't have both completely, we must find some combination in between.

The Committee on Economic Development has a good research staff making studies of general economic conditions. Their basic information—like J. M. Clark's study on demobilization—can be extremely useful to private business associations and Federal, State, and local governments. They are setting up thousands of local committees to deal with local situations, believing that if each community takes care of its own people the Nation won't have to solve the problem. It is true that we can attack a concrete local problem better than if we make an abstract approach to 10 million unemployed. In some war-born communities no jobs will exist and people will have to go back home. Questionnaires have been sent out by some committees to find out which people want to return. The CED has a strictly private-enterprise approach—a good approach. They don't ask for Government help.

The committee recognizes that industry and business have a social responsibility; that private enterprise, to justify its existence, must furnish jobs for all who want them. The difficulty is that business in itself doesn't provide employment. None of them suggests how an individual enterprise can be organized, motivated, and directed toward full employment as a goal. Individual enterprise, as I see it, is not in the business of making jobs but of making goods as effectively, efficiently, and economically as possible. If the employer uses more labor and resources than necessary, he and his labor force are both soon out of a job.

The CED admits that public works will probably be more important in the future than in the past. The problem of this approach is the underlying philosophy of public works: Is the work something the community needs or is it done primarily to make jobs? Is it financed out of current income, or is it intended as a device to create purchasing power? When Mr. Harper had asked if the CED accepted Lester's views, Mr. Bigge replied that the committee in general accepts facts but not necessarily the philosophies of the authors. J. M. Clark, for example, has a different view. The difficulty of business in planning for full employment is that it must make its commitments in relation to a market which promises to provide an income that will enable the business to pay off loans or bank credit and meet payrolls. Business has the same problem now that it had in 1940, and will have 15 years from now. If we produce 50 or 100 percent more consumer goods in the postwar period than we had in 1939 we must double our consumption. Most of us could double our consumption if we had the income to buy the goods and could get the right goods at the right price.

The potential employer has to decide in advance whether we will want his goods and will pay a price which will cover costs of production. Otherwise he doesn't build his factory or develop the industry. Five years ago we wanted more goods—housing, food, clothing, travel, education, while 8 million men were looking for jobs and billions of dollars of capital looked for investment.

While Government was trying to stimulate private enterprise to produce jobs, business investments in Government bonds increased by \$16 billion, and in 1936 and 1937 the maximum creation of new investments (not replacements) was only half as much as in 1930. Businessmen couldn't see in the years ahead, any prospect of selling goods they might produce at a price sufficient to cover production costs, so that they could ask a finance house for help in building a factory and thus creating jobs.

It is frequently said that the employer does not create purchasing power, because he keeps the gains of better production methods for himself. If he paid out these gains in wages and dividends, it is contended, he could keep people employed. That just doesn't work for individual employers. If new textile machinery enables 1 man to replace 2 and that 1 man's wages are doubled, the sales price has to remain at the same level, a level at which the employer was selling all the goods he could. Half his employees gets high wages and the other half are unemployed. If he cut his price in half he might sell twice as much, keep all his workers employed, and raise their standard of living. Business gains are spread through the community by reducing the price of goods and thus increasing the purchasing power of other workers whose wages have not gone up.

The CIO says that the only way the community as a whole can share the gains of technological progress is by maintaining the wage of the individual worker in the industry that makes the improvements. That philosophy prevailed in the twenties and thirties, and I think we have it now. The highest

and most rapidly rising wage level in history was in the twenties, when we were increasing unemployment because we didn't share gains with consumers. A good statement of the low-price philosophy appears in *Price Making in a Democracy*, by Edwin Griswold Nourse.

The CED seems to stress too much the idea that we are dealing only with war-born problems, to be tackled by local communities. Three other groups of problems will be more difficult to handle that way—the problems of international maladjustments, agriculture, and low wages.

International maladjustments resulted from our moving from the position of a debtor to a creditor Nation. While we were a debtor Nation, we wanted to send out more goods than we took in. We suddenly became a creditor Nation and weren't willing to take payments. Trade was disrupted, and agriculture and industry developed in new places and industry expanded. The exchange mechanism, gold standard, and all international standards were shot to pieces and haven't yet been put in order. The Bretton Woods agreement is intended to remedy this at least in part.

We had the agricultural problem—probably the most difficult of all. You know how we tackled it, first through the Farm Board buying up excess production, then killing pigs, plowing under cotton, and paying bonuses for restriction of output. Although we tried to get people to buy a little better food and improve diets, in the main we attempted to shrink the agricultural and industrial economy to current needs of the market which was limited by impossibility of buying the goods. We tried to protect producers in the field at the time. Unions also limited membership because they already had more members than jobs for them. We thought in terms of sharing what we had rather than creating more. These problems are still in our doorstep.

To me, the biggest potential market in the world for American industry is in the lowest-paid 30 percent of our population. If we could find a way for these people to earn decent wages in producing goods so efficiently that the goods could be sold at prices that would cover production costs, we would have a market that would keep us going for a long time. If we gave half as much attention to creating markets within our borders by education, training, and minimum-wage laws, as we do to studies of potential foreign markets we wouldn't have to worry about political maladjustments in other countries.

The National Planning Association, National Resources Planning Board, the Beveridge plan, and the Murray bill all have an altogether different approach than I have been discussing. They assume, in general, that private enterprise can't provide full employment. Government must help, they say, by creating purchasing power or distributing purchasing power through borrowing and spending. In the main they accept the Keynesian theory, which I can't follow. This philosophy has two elements—the theory of a mature economy and the theory of oversaving. They say that private enterprise and free exchange was all right in a rapidly growing economy, when all that was needed was push and initiative for expansion. Expansion was the watchword for 150 years. If we overdeveloped in one field we had a chance in another, never reaching a stagnation point which tended to restrict employment. We always needed more than we could produce. This situation existed in the United States up to the First World War and in general in the industrial world we have known. We then reached an end of the expansion period—as President Roosevelt put it some years ago, "Our cities are built, our industries are constructed and equipped; now we can turn to other things." Expansion used all our labor in the past. Much less is needed for replacement. It would seem that we could thus turn our attention to producing more goods for human welfare and raising standards of living.

But the oversaving theory holds that this cannot be done without Government help. Our habits, customs, institutions, and even laws have been adjusted to the need for expansion and thus a high rate of saving. When we stopped expanding we couldn't change these institutional arrangements promptly. When we ceased using the savings for expansion, the money was idle, the market decreased, and people were unemployed.

There seems to me some validity to the theory of a mature economy when our history is examined, though I don't accept all points that the theory involves. A 100 years ago we had almost no industries—textile mills were small, clothes were made at home, handlooms were still used in New England. About every decade we have created a tremendous new industry—textiles, shoes, iron-and-steel, railroad, telephone, automobiles, radios—going from hand methods

to machine methods and making tremendous investments. While we were building the equipment, the money paid in wages did not immediately put consumer goods on the market; that step came a year or two later, and in the meantime consumer's demand exceeded the supply of goods and kept business active.

Our rate of expansion has probably slowed down. Certainly the relative importance of television will be much less than that of railroads or automobiles in the last half of the 19th century and beginning of the 20th. We now have so much larger fields of capital and labor to draw on that the effect of a new industry is a fraction of what it was a century ago. We must, therefore, change our institutional arrangements, investment and banking structures, habits, and customs. I am hopeful that we are intelligent enough to do it if we recognize the need.

The trouble with much current discussion is that it assumes that the problem can be solved by indiscriminate Government spending—general spending rather than specific action directed toward a particular problem. If there is a deficiency of \$10 billion in purchasing power and the Government spends \$10 billion on a construction program, all will be well, the spending advocates say. But if you need \$10 billion more in purchasing power, the deficiency derives from some cause—agricultural problems, lack of import-export balance, low wages in certain groups, and so on. Unless Government spending is directed to the people who want to buy the goods that employers want to produce, the \$10 billion will be siphoned off to groups who already have enough and will add to their savings. Government spending, moreover, may do more harm than good in that it seems, temporarily, to solve the problem. It may give a temporary balance by creating credit, but things are thrown out of balance on the other side, and another \$10 billion must be thrown in next year, adding to the deficit year by year.

I believe that our economy can't stand this method of creating purchasing power if it is to operate on a private-enterprise basis. Employers, knowing that it is a hand-to-mouth policy, must adopt hand-to-mouth policies themselves and can't attack the basic problems which cause the imbalance in the first place.

I think the Government may have to engage in much more activity than in the past. I would be in favor of a school-lunch program, for example, or a recreational program—anything of that type which will raise the standard of living for the community as a whole. But we must pay for it out of current income through progressive taxation—not by trying to pull ourselves up by our bootstraps or lifting ourselves with a balloon of credit which has to be bigger each year to keep ourselves aloft.

The Murray bill for full employment contains a great deal that can be extremely useful in dealing with the problems we shall face. As you know, the President, after getting together the best group of prognosticators to determine how many people want jobs, would present to Congress a production and employment budget. His second responsibility would be to estimate the expenditures necessary to create these jobs. His third, would be to present recommendations to Congress for a program to make up the deficiencies if any; if it looks as if there will not be enough business to employ everybody, suggest programs to remedy the situation. These programs would run the whole gamut of Government activity—taxation, finance, money and banking, trade practices, monopolies, foreign trade. At the end, for good measure, it is stated that the Government would spend the amount necessary to create full employment. This spending, if worked out, would be broken down to indicate specific programs to deal with existing inadequacies.

It would be helpful if the problem were really attacked on all these other fronts before Government spending is used as a remedy. People interested in developing the plan, I am afraid, will still think spending the easiest and most efficient method. They will be loath to disturb pressure groups in agriculture, for example. They would hesitate to try to change the money and banking system. It is unpopular to restrain expansion. On the other hand, we can't make businessmen borrow when they don't need money. And so on with reference to other specific measures.

As the second stage of planning under the Murray bill, Congress would set up a committee composed of chairmen of all important committees dealing with Government policy which might affect employment. This committee would study the program recommended by the President and would formulate a general policy to guide committees dealing with particular pieces of legislation. This bill would not vest any authority to create full employment anywhere.

Every legislative action would be taken by the appropriate existing committees of Congress.

One clause of the bill disturbs me a little—"Every American has a right to a job." Right is an individual thing. Other rights that the Government guarantees, such as the right of free speech, are fairly well defined, so that the Government has methods of making good on the guarantee. But how can we make the concept of right effective in guaranteeing "useful, remunerative, regular full-time employment"? Who has the responsibility of providing the job? Suppose a man has been getting \$1.75 an hour in a war job that he likes better than his former pick-and-shovel job. Has he a right to the job he likes and when may he exercise that right? How many people must be in the labor market before the Government is called on to see that they have ample opportunity to exercise their rights freely? Certainly the Government is not going to look out for each individual, to see that Henry Jones has the job he wants. The most we can do is try to develop such an economic environment that we won't have mass unemployment, so that we won't have more than a few people—certainly not for any length of time—looking for jobs and unable to find suitable jobs. Suitable, however, doesn't necessarily mean the jobs people have held during the war, but suitable by ordinary community standards. To my mind the bill would be more effective and less subject to misinterpretation if this particular concept were stated somewhat differently.

The author of the bill has tried to give ironclad protection to private enterprise and to congressional authority. The President can do nothing except spend within appropriations Congress gives him to solve the problem. He can only recommend; Congress must enact. It is an extremely well-developed approach for planning.

When thinking about this and other economic problems, I always feel relieved to get back to social insurance. Here we deal with a much more amenable concept. We know in general the limits of what we can do, and the problem of finding better methods of doing it is just a question of how far communities are ready to go. In the years ahead, regardless of what we do by way of the Murray bill or similar approaches, we shall find it desirable and necessary to use the social-insurance method to deal with the major problems of loss of income through unemployment as well as other risks. If we have that, I think we shall have the flexibility and time necessary to deal effectively with the particular maladjustments which undoubtedly must be faced and solved if we are to have full employment permanently.

Mr. Powell called attention to the luncheon meeting at 12:45 and said that Mr. Woytinsky's talk would supplement and round out the discussion that Mr. Bigge had started.

Economic perspectives (Mr. Woytinsky)¹

Our demand for economic projections and prognostications is partly due to the feeling of insecurity. In the war boom and on the eve of victory in Europe we are aware of three threatening dangers: Economic dislocations and unemployment during reconversion; setbacks, unemployment, and social turmoil after demobilization; and mass unemployment and misery a few years later, after a short period of catching-up prosperity. Our experience in the First World War and Civil War justify these fears.

After the last war we had a minor setback immediately after hostilities ceased. Then came a new wave of inflation, followed by the collapse of 1920-21 with very severe unemployment. The period which came next was called Coolidge prosperity by some people and fools' paradise by others. We are inclined now to call it the postwar catching-up prosperity. Civil War experience was almost identical: after the immediate minor setback at the war's end in 1865 we had recovery and an inflationary boom. Then came a collapse like that of 1920-21, a recovery, and a new collapse with the depression of the 1870's, more severe than anything before in the Nation's history. Since our present war economy is much more complicated than it was at the end of the first World War, the danger of collapse is greater. What setbacks will parallel that of the autumn of 1918, that of 1920, and that of the 1930's? What will happen to our unemployment compensation system?

We can get a general idea of what the postwar period may bring by referring to the chart which shows the ups and downs in the average weekly number of

¹ The May issue of the Social Security Bulletin will carry a more detailed article on this subject by Mr. Woytinsky, including the charts presented during his talk.

beneficiaries under State unemployment compensation systems, through 1939-44. In the first half of 1939, before reconversion to defense and war, the number of beneficiaries declined steadily with the progress of recovery from the 1930 depression. When Germany invaded Poland, the first reaction of businessmen in this country was to anticipate a boom. Employment rose and the number of beneficiaries dropped suddenly. Very soon, however, we discovered that the future was uncertain. The expected war boom did not materialize. Instead, the number of beneficiaries began to rise with the general uneasiness during the phoney war in Europe.

In mid-1940, the number of unemployment beneficiaries was nearly 75 or 100 percent greater than in 1939. In May, Germany invaded the Low Countries. The war entered the second phase; the terrible blitz began. The curve of beneficiaries in our chart turned down instantly. After Dunkerque and the fall of France, the war neared our shores. To meet the danger we sent Great Britain nearly all the guns we had. Then we had to rearm our troops. Under the impact of the defense program, production and employment began to rise. Our beneficiary load fell as abruptly as it had increased in the autumn 1939.

And yet by the end of 1940 we had about as many beneficiaries on our rolls as a year before. So sensitive is our system to economic dislocations that in the first phase of the war its benefit load increased above the probable trend indicated by the progress of recovery in the first half of 1939. All in all, we spent about \$200 million more than we would have spent if there were no war in Europe.

The real turning point came when Germany invaded Russia. Although lend lease, established a few months before, gave us the tools to become the arsenal of democracy we didn't start large scale preparations because no one knew whether Great Britain could survive or if we could have time to complete ambitious armament programs. That time became available when Russia was invaded. Investment in munitions factories could be launched, big orders came from Great Britain, and our unemployment compensation load declined to an unprecedented low. Then came Pearl Harbor. In contrast to the situation after Dunkerque, the beneficiary load skyrocketed, signaling widespread displacement unemployment. Our automobile production stopped; durable-goods industries were placed under controls to mobilize the whole production system. It may be estimated that displacement unemployment cost our agencies about \$100 million in additional benefits.

Another turning point in the curve of beneficiaries is noticeable at the end of 1943, when munitions production reached its peak and began to decline. Its downswing marked the upturn in unemployment compensation loads. The function of the unemployment compensation system is exemplified by its response to general economic outlooks and conditions; it has to pay for every downswing in employment, every dislocation, and every change. If States prepare similar charts to compare their current unemployment compensation loads with the course of general and perhaps local events in the past they would have a basis for ascertaining what can happen next.

To visualize the economic setting for our work in the coming year we should start from definite assumptions on the duration of reconversion and the magnitude of probable dislocations and readjustments. It seems unwise to assume that the war in Asia will be over in 6 months or even a year. It will probably take about a year to transfer to the Far East sufficient forces for invasion of the mainland. The full-length timetable for reconversion may be a year to shift from the global war to the war in Asia; a year for that war to reach its climax and end; a third year for demobilizing the Armed Forces.

How great will the task of reconversion be in terms of shifts in employment? We now have about 64 million people in the labor force, including the Armed Forces—about 12 million in the Armed Forces and 52 million in the civilian labor force. Of the civilians, 51 million, in round numbers, are at work—40 million in peacetime jobs, 9 million in munitions and related industries, 2 million or somewhat less in Federal war agencies and 1 million are unemployed.

In the next 2 or 3 years, workers in munitions industries and Federal war agencies will be laid off—a total of 11 million. The Armed Forces will be reduced drastically. If we assume that 3 million will remain in military service or training and that 1 million ex-servicemen will reenter educational institutions or will be unable to return to civilian occupations, about 8 million persons will shift to the civilian labor force from the Armed Forces. Increases in population in the next 2½ to 3 years will bring about 1.5 million new workers into the labor force. These rough estimates give a gross increment of 20.5 million

workers who may be looking for jobs in civilian occupations during reconversion, say from May 1945 to May 1948.

What are the offsets to this increase? We are now working an average of 45 hours a week instead of the average 35-37 hours before the war. The increased work week has been estimated as equivalent to the recruitment of 5 million additional workers. The return to peacetime work hours, however, won't mean that an additional 5 million workers will be required to keep production of civilian goods at the present level. It may be estimated that about 3 million workers will be absorbed by the reduction in hours of work.

Another offsetting factor is the withdrawal of emergency war workers. Of the present labor force about 7 million are temporary or emergency workers. If we assume that only 2 million remain in the labor market, we shall have an offset of 5 million workers. The third offsetting factor is the pending demand for labor in unessential occupations. The exact number of unfilled jobs is unknown and it is likely that some of them will disappear with reduction of munitions production. A conservative estimate might be that 1 million vacancies will be open to people laid off by war industries. These offsets leave about 11.5 million new peacetime jobs to be found during reconversion. The number is closer to 10 million if allowance is made for a moderate rise in current frictional unemployment. This gives us a general idea of the magnitude of the goal of reconversion, in terms of peacetime jobs. The goal of reasonably full employment will be reached if approximately 3 million workers are absorbed by the present production of civilian goods, as a result of reduction of the weekly number of hours of work, and if an additional 10 million peacetime jobs are created as result of industrial reconversion and expanding production.

Total employment in peacetime activities will rise, in this event, from 40 million to approximately 54 million. What is the probability of such a steep advance? What does this level of employment mean in relation to our experience in the past?

In March 1940, we had 45 million persons in civilian employment. Allowance for 9 percent population growth and proportionate growth of the economic system should raise this total to 49 million, assuming no change in employment patterns. To be successful, reconversion will need to provide about 5 million more jobs than indicated by this pattern. If we recognize how far we were from prosperity in 1940 and allow for deferred demand for housing, durable goods, capital goods, and public work, this 5 million goal seems modest and within reach.

By another line of reasoning, we may start with conditions in March 1945, when we had about 17 million workers in manufacturing with about 9 million in manufacture of munitions. When war ends, not all these 9 million will lose their jobs. Basing estimates on figures of the National Association of Manufacturers, it appears that about 3 million of these munitions workers will continue work on peacetime products at the same bench or lathe with little or no interruption, and that not more than 6 million will lose their jobs. Manufacturers think that they will build up production during reconversion so that they will put about 3.5 million back at work in about 6 months.

Even if these estimates are too optimistic, it might be assumed that manufacturing will provide 5.5 million of the 10 million jobs needed for full employment in reconversion, leaving 4.5 million to be provided by other industries, which usually employs three-fourths of the labor force.

How will these jobs be distributed? The building industry, now reduced to nearly zero, should demand at least 1.5 million more workers; about 0.5 million may go back to agriculture, perhaps only temporarily, to meet the heavy demand for farm workers; about 0.5 million will probably find work in self-employment (the Department of Commerce places this estimate as high as 1 million). The remaining 2 million jobs should be available in service industries, trade, transportation and communication, educational and medical services, other professional pursuits, Government, service industries, and domestic service.

To sum up, the goal of 54 million jobs by the end of demobilization, say by May 1948, does not seem overwhelming. Much more serious are the other dangers which threaten us. If we prevent unemployment in 1948 we shall be preventing only the first minor setbacks such as those occurring immediately after the Civil War and World War I.

Much more disastrous were the setbacks which our economic system suffered sometime after the completion of the demobilization (in 1867 and 1920) and especially those which resulted from the accumulation of maladjustments after the war. Without minimizing the danger of similar developments after this

war, I would like to mention the factors which make me believe that we will be successful in meeting the threat.

This chart shows the course of inflation in the earlier wars, by expressing levels of wholesale prices in each subsequent year as a percent of the levels in 1860 and 1913, respectively. The chart shows how little we learned about price policy from the Civil War. We repeated all the errors, and the collapse of 1920-21 was inevitable. In contrast with this sad experience, we have been successful in price stabilization during this war. As compared with 1938, prices rose moderately before Pearl Harbor. So far we have avoided runaway inflation; if we are successful in controlling prices during reconversion we have no reason to expect a collapse of the type and violence which we suffered after World War I.

In a nutshell, the violent contraction of economic activities analogous to the depression of 1920-21 is not likely to occur after the completion of the demobilization, say in 1950-51, unless we permit a runaway inflation immediately after the war, say in 1948-49. Our success in this phase of postwar economy would not, however, eliminate the main danger, a collapse similar to the depression in the 1930's, which might occur 5 or 6 years, perhaps even 10 years, after the end of the war.

I agree with Mr. Bigge that to meet this danger questions of fundamental disparities in the economic system must be solved, but I have at least 12 reasons to be optimistic about our ability to avoid the mistakes made after the last war.

1. It is clear that we shall have a gradual rather than a sudden jump from war to a peacetime economy. Reconversion will be stretched over several years. It began in December 1943, and a lot has already been effected.

2. Our success in keeping prices under control during the war justifies our confidence that postwar inflation will be avoided.

3. We have accumulated savings of more than \$100 billion, which will not only cushion the transition from war but also support a high level of production and consumption in the catchingup period after demobilization and thereafter. I believe these savings will be in the hands of those who will need them and will use them as basis of personal security and a higher standard of living.

4. Business has accumulated large liquid reserves—more than ever before, the NAM and various business journals say. It will have, therefore, more independence and freedom from monopolistic influences. Businessmen won't have to go to banks for loans, and their resources will aid in stability and security. After the last war, business reserves were destroyed by inflation.

5. Deferred demand for housing and durable goods may not be satisfied for 10 years or longer. Housing programs in rural areas cannot be completed in a short time. Farmers have accumulated liquid reserves of about \$20 billion which they will use for rebuilding and providing themselves with water, electric light, telephones. Public works are needed also. Air transportation will revolutionize our lives, and we will have to rezone cities to provide grounds for airports around them.

6. We hope to avoid the economic dislocations of the First World War which were due to a shortsighted policy in canceling war contracts and liquidating Government-owned plants and surplus war materials.

7. We hope to do more this time to help veterans return to civilian life. A lot of social conflict after the last war resulted from lack of provision for them.

8. We had no social security system after World War I; the one we have now is an additional factor in aiding stability, particularly if it is extended as we hope.

9. Returning to the chart of prices during and after the three wars, we can see that we have gained in economic techniques. The important thing to me is not so much that we have kept prices down, but that we have been able to do this. Here is evidence that we are better able to control economic conditions than we were after the First World War.

10. The attitude of business toward problems of reconversion and the postwar economy is sounder than ever before. I agree with Mr. Bigge in his tribute to the efforts of CED and am not unduly disturbed by the rumors that business is in favor of Government control only if it can control Government.

11. Organized labor has recently shown an inclination to play ball with management. The trend seems to be toward working agreements and arbitration rather than power politics.

12. This country will emerge from the war the most powerful and prosperous Nation of the world, with the greatest assets and liabilities and with responsibilities in all parts of the world. It will have new frontiers for foreign trade

and investments and will use its resources to promote industrialization and prosperity in backward countries. After the last war about all we did was help Germany rearm.

This list of 12 favorable factors is not exhaustive, but I think it justifies a reasonable and moderate amount of optimism. It does not say that we shall succeed, but that we can succeed.

Discussion of economic trends and perspectives

Mr. Powell asked if it were safe to assume that because we could control prices during the war we could keep prices down during the reconversion period. He also wondered what our price controls would avail if prices are not controlled in other countries with which we do business. Mr. Woytinsky, answering the second question first, said that the United States is able to pay the highest prices; if we don't pay them, no other country will. Any foreign pressure which might develop would be in the direction of lower prices, and collapse of prices abroad will make it difficult for us to sustain price levels. Mr. Woytinsky went on to say that he was convinced that controls would be maintained if people knew that the alternative would be runaway inflation. Possibly a trial-and-error approach will be used—abolishing or relaxing some price controls, restoring and tightening these or others. Congress, despite attitudes sometimes taken in speeches or debates, makes rather sound decisions and would not enact laws which might be suicidal or disastrous in effect.

Miss Engle then asked if controls could be maintained with present congressional attitude toward black markets. The issues aren't partisan, she said, but reflect the fact that for the first time Americans are facing a real shortage of basic commodities. This shortage, she asserted, is back of the black market and will constitute a challenge to our ability to keep price controls. Mr. Powell also asked about the problem of feeding people in devastated countries more or less indefinitely, and wondered how long the need for such action would be necessary and how much effect it would have in breaking down price controls.

Mr. Woytinsky pointed out that neither price control nor its relaxation can create additional goods. He foresees strong pressure for expansion of production for civilian use and fears that in some cases the expansion will be greater and come sooner than it should. However, this alone would not lead to inflation of prices. Control of prices is easier when more goods are produced. Foreign demand for food will not represent more than 4 or 5 percent of our agricultural production, he said, it may cause difficulties in the next 6 or 9 months, but should not keep the food situation as tight as it is now for more than a year.

Mr. Bigge said he was glad the agenda was arranged to give the group Mr. Woytinsky's point of view before lunch. Appetites will be better. Mr. Woytinsky's convictions are based on two main assumptions: A special department in the executive offices of providence looks after the American people; the American citizenry as a whole is always rational in doing what is best for itself. Mr. Woytinsky is the best possible illustration of the belief that the voice of the people is the voice of God.

When Mr. Powell called attention to an apparent gap in Woytinsky logic, since he had condemned our failure to muddle through after the Civil War and last World War, Mr. Bigge said that probably Mr. Woytinsky would claim that the special department hadn't been set up then. Mr. Woytinsky confirmed that this was his idea: We are well equipped now to handle a difficult situation although we failed in the past.

Mr. Neustadt asked Mr. Bigge to explain how adequate income could get to the lowest third of the population, who represent the greatest consumer demand. Mr. Bigge said that we should provide devices so that these low-income workers could earn \$1,500–\$2,000 a year producing goods that could be sold at a price which would cover production costs. He went on to say that the device should not be "relief" or public works or anything similar.

Mr. Harper asked about the attitude of business and industry toward the need for reducing unit costs of production. He asked if the CED, C. of C. and General Electric accepted the principles and wondered if these groups hadn't jumped all over Wilson of General Electric when he took this stand. Mr. Bigge expressed the belief that the spokesmen for the C. of C. were far more inclined than the NAM toward this view. Wilson of General Motors holds more to the principle of high prices to cover high wages, believing that labor will certainly demand present wage rates and probably present take-home pay. Wilson of General Electric looks at a broader picture and hopes we shall be able to work out a socioindustrial policy; he gets away from ordinary business attitudes and,

as quoted by Nourse in *Price-Making in a Democracy*, asserts that we must find a way to accomplish socioeconomic objectives.

Mr. Powell, asked if the group would be interested in a list of references to books which might furnish background for mature consideration of some of the subjects discussed this morning. He suggested that Mr. Bigge might furnish some such references.

Mr. Lyle said that in the South some marginal-income groups have almost vanished. If the skills acquired by shipyard welders can be used in other occupations, their average prewar earnings might be almost doubled. Mr. Bigge declared that the Government during the war is creating money through bank credit to pay high wages, for it must pay any price necessary to get the goods needed, even if the price is two or three times what it would be in peacetime. The submarginal workers are not earning their wages by any peacetime standard, he said. When the Government stops buying we shall have this question to face; How much can these workers earn in available jobs producing goods that the rest of us can afford to buy? Great Britain is to some extent solving the problem of translating war-acquired skills to other forms of production by controlling the location of new industries. New plants will be permitted to open only in areas with available labor supply.

Miss Engle asked if we should not begin to face this problem for the 9 million munitions workers who will have to adjust their skills to new demands of the labor market. Mr. Powell suggested that the question be held over for the next session.

In opening the second session Mr. Powell said he was sorry that the discussion could not be picked up where it left off. Those who went to hear Mr. Haines, however, probably feel that discussion during lunch fitted in so well with this morning's session that there is no net loss.

Health insurance—America's next problem in social security (Mr. Falk)

At the first this title gave me some qualms. It seemed a bold commitment to imply that any of us know what America's next problem in social security is, in the sense of the next most important, or the next to be implemented; but on further thought, I concluded that perhaps the topic was appropriately worded. Interpreted in a broad sense, referring to fields of both disability and medical-care insurance, it deals with the areas of the largest gaps in the social-security program, and in that sense with areas that should be treated as the next problem and the next major fields of new development.

Miss Engle sent an outline to some or all of you, and I received this morning a summary of your comments. One said, "I am interested in section A," another, that section A of this outline might be ignored; someone else chose section C; and some fell in between and wanted a little of this and a little of that. I shall run through this outline so that, in my best judgment, I can give what may be the common denominator, and perhaps later we can pick up any topics treated too briefly.

I have interpreted the topic in the broad sense of covering both disability insurance and medical-care insurance. I shall not undertake to review the character and magnitude of the risks, the need for protection, except in a most cursory fashion, because those are aspects with which you are familiar. Probably your greatest interest is in what's happening in the disability and medical-care insurance fields, the high points in the past 12 months, current prospects, outlooks, and trends—more particularly what's ahead, rather than what's behind.

But in treating these as the next great problem in social security, I think we need to remind ourselves of the underlying elements in the social-security program—keep in mind five common risks: dependent old age; premature death and resulting dependent survivorship; unemployment; disability, whether short term or long term; and medical care, that is problems involved in accessibility of medical services when they are needed, the quality of care, and the costs involved in paying for them.

I am sorry I wasn't here for the discussion this morning, but I assume if you got into any inspection of the general economical outlook, you have already refamiliarized yourselves with the considerations that are involved in the problem so commonly posed now, as to whether or not the social-security program will be needed in the event we have full employment, or whether social security presents a program to tie up the loose ends in the period of depression. Whether we succeed or not in achieving full employment and however great our successes or grave the failures in transition from war to peace in maintaining a high economic level generally, we have to hold fast to the basic truth that the functions of the social-security program must be served. If we consider the underlying basis of

the program in terms of the five primary risks, we get a quick reminder that for only one of them, unemployment, does the level of emmployment and of the economy materially change the nature or intensity of the need for social-security protection. With respect to dependent old age, premature death and dependent survivorship, disability, and medical care, there are no fundamental changes in the need for protection whether the level of the economy is high or low.

There are some differences, hinging primarily on the extent to which, in most prosperous periods, people build up some protection against these risks individually through savings and thrift and the thrift and economic well-being of friends and relatives. In prosperity, people have larger resources with which to purchase protection privately through voluntary insurance schemes. But the importance of both of these is limited, because we are dealing with risks against which only a small fraction in our society can protect themselves, through savings or voluntary purchases of insurance, against the most catastrophic of the risks that may befall them.

Despite the long history of voluntary insurance, though a great deal has been accomplished and much experience acquired, and though society has learned a good deal how to practice insurance against these risks, by and large voluntary insurance protection has failed, in this country and elsewhere, as a means of achieving protection for the bulk of the citizenry and particularly for people with the smallest means. On the basis of that experience, we conclude that for these risks, as for the others already covered by social insurance and assistance, protection must depend on action by government, at one level or another, or combinations of governmental action and that the need for governmental action, which cannot be avoided if the protection is to be secured, necessarily involves the development of means for keeping a balance between security and freedom.

Particularly in the controversial areas of disability insurance and medical-care insurance, reason and temperate considerations must prevail, despite the many examples we have seen to the contrary. There is no choice here between economic and social security and freedom; we must surrender certain privileges and freedoms of action to government action, so that we may have security, so that, through governmental action, security may be achieved for most if not all of the populations that may be reached by the implements available to government. But security and freedom are not alternatives, mutually exclusive—both must be had. We sacrifice, we give up, we surrender a certain measure of our individual freedom, so that we may have that security for people at large which in turn spells freedom for the larger number.

I emphasize this point because so much that is controversial hinges largely on failure to understand that they are not alternatives—perhaps more accurately, on a readiness to believe that there are mutually exclusive alternatives between freedom and security. I think it's not a real alternative.

In both these fields the controversy is intense. Otherwise we should have had provisions against them enacted in our law in 1935, or in 1939. The controversy is intense, I think, because there are considerable and intensive practices, extensive interests, that undertake to furnish protection to people against these risks, and because these interests, behaving like vested interests, are fearful of the action of government which may supersede private enterprise, which may make what has been an active and perhaps a flourishing private business, one that no longer has a market. That is true in disability insurance, for a large vested interest has a large stake in that field. In the medical-care field, the controversies arise principally because here, too, proposals for governmental action constitute proposals for new forms of action that must be built on a large and existing structure.

When unemployment insurance was adopted in 1935, with trivial exceptions, no employment insurance was practiced on a voluntary basis, commercial or non-profit, or by government. In medical care, a million or a million and a half people are engaged in furnishing medical and auxiliary services. About 6,500 hospitals are registered by the American Medical Association. Perhaps some 175,000–180,000 physicians, of whom 150,000–160,000 are in active practice, some 70,000 dentists, and nearly 275,000 graduate nurses—all have a tremendous stake in any change that they fear may endanger their fields of activity, the traditions under which they practice, or may bend them or require that they bend to a new order in their fields of work. We have commercial insurance agencies, doing large volumes of business, much of it very profitable, some of it unprofitable: but they are all equally disturbed by what may be the governmental impact on them.

In this field the Government must build on available equipment. Medical-care insurance will not build a new system of hospitals in which insured people will be treated separately and differently from those in the hospitals we have; a medical-care insurance scheme will not create a new medical profession imported from abroad. It must operate with the practitioners we have in the country; therefore it must be a system acceptable to them, or to most of them—one under which they can and want to practice, to which they can adapt themselves, if change is required. The controversies exist because there are fields which have been extensively cultivated, in which there are large crops, and the new crop has to be sown and blended with the old.

Complications here are far reaching for us in the Social Security Board, and for social-security legislation, because what we do or propose to do in these fields has extensive repercussions on what is being done or proposed in other fields. For example, when a lobby group creates an organization to oppose a medical-care insurance system it may build or try to build up antagonism against new proposals by sweeping into its net all who are opposed to anything else that we already have on the statute books. It tries to build up a common front and get advantage in its own medical-care field through opposition available from those who are opposed, say, to proposals for unemployment insurance or old-age and survivors insurance or public assistance or, for that matter, to any Federal proposals. Yet the converse is true also. I will illustrate some of these general points as I go along talking a little on disability insurance, and then on medical-care insurance.

In disability insurance, we speak of 7 million disabled on an average day of the year, about half of them representing short-term disabilities that have already lasted not more than 6 months, and the remainder, disabilities that have lasted half a year or longer. We tend, for many good reasons, to break disability problems and proposals into two parts: temporary disability and permanent disability.

What we call temporary disability insurance originated not as a separate form of insurance, nor for that matter as disability insurance; it originated as a form of wage-loss compensation, or cash insurance benefit in connection with medical-care insurance. With only 1 or 2 exceptions, health insurance the world over has provided 2 kinds of benefits—a cash benefit to the worker who became sick and unable to work, which partly compensated for the wage loss; and medical benefits if he needed care and treatment; commonly the medical-care benefits were later extended to the worker's dependents. Because of difficulties emerging in the course of long experience, an increasing tendency has developed in the last 20 years or so to separate these two classes of benefits. The cash benefits or what we call temporary disability insurance are usually payable for a maximum of 13 weeks, or 26 weeks, or sometimes longer; in any case the benefits are for acutely sick workers, workers who will get well in a comparatively short time.

Permanent disability insurance has a different origin. It came into being as an aspect of old-age insurance, a retirement benefit for the worker who was through with gainful occupation; it was commonly called invalidity insurance. From the beginning, the German scheme had no separate invalidity insurance and no separate old-age insurance; a single form of insurance provided that the worker could retire if he met eligibility conditions, on attaining a certain age or before that age if he were permanently incapacitated. Thus the two forms of disability insurance grew up separately—one part sickness insurance or health insurance; the other, what we call old-age insurance.

In this country we have many reasons for considering them separately. In Europe, health insurance was the oldest and first form of insurance; other insurances were built on it. Here we haven't health insurance, and we are building our system on what we have. We have unemployment insurance, and since the temporary disability risk is like the unemployment risk, we have a tendency to build temporary disability insurance on the unemployment insurance structure. We think of extending protection against the risks of unemployment due to lack of a job, into broader systems that will cover loss of income whether due to lack of a job or inability to work. This tendency has material consequences for the structure, form, and the characteristics of the systems that may be designed. These may be very different from those which would be built on a health-insurance structure.

For example, the one system of temporary disability insurance we have, the cash sickness system in Rhode Island, is built entirely on the basic plan of unemployment insurance—base year, benefit year, and benefit formula taken over. In the 30 or 40 countries that have temporary disability insurance there is nothing like it. They follow their health-insurance pattern, which starts out like

our workmen's compensation. If a man is engaged in gainful occupation, he is covered by sickness insurance. In some countries, the amount and duration of his benefit are affected by the number of weeks he has been paying insurance contributions; but those countries haven't the base-year and benefit-year concepts we are using, because they didn't build temporary disability insurance on unemployment insurance; their insurance against temporary disability was in operation 50 years before they had unemployment insurance.

For a decade we have been thinking about temporary disability insurance as developed either in conjunction with unemployment insurance or with health insurance and about permanent disability insurance built around the old-age insurance pattern. We have thus developed the idea of two separate structures—the first on the pattern of Federal-State unemployment insurance, and the second the invalidity or long-term insurance, on the structure of old-age insurance. Separation between temporary disability insurance and permanent disability insurance is irrational, as a matter of fact with respect to the most important criterion the logical, effective protection of the worker. The disabled worker doesn't suffer temporary or permanent disability—he suffers a disablement. How long it will last, in most instances, neither he nor his physician or anyone else knows. There are some exceptions in which it is reasonably sure the disablement will be brief or permanent—but, in most instances, the duration and severity of the disability is unknown in advance. What the worker wants and needs is assurance that when he becomes disabled, and so long as he is disabled, he will have some income. He doesn't want one protection for so many weeks or months, which will drop him unless he fits a new set of qualifications and a new set of requirements, administered by another level of government. He wants continuity of protection. He can have that—there are some such insurance systems, for example, Great Britain has a single disability insurance scheme. When the worker becomes sick, he becomes entitled to sickness benefits, which run for a specified level for 6 months. If he is still disabled at the end of 6 months, his disability benefits continue. Now they call it a disability benefit. It differs from the sickness benefit in that it is less, but it runs until he recovers, dies, or attains the statutory age for an old-age retirement benefit. We can have temporary disability insurance and permanent disability insurance or we can have a unified insurance that covers disability, whatever its duration without a break in continuity of protection.

In no small measure because of the conflict whether temporary disability insurance should be developed as part of a Federal social insurance scheme or primarily on the basis of State action, something of a race has been going on to see whether State action can antedate Federal action. In Rhode Island, where a cash sickness insurance scheme was developed by expanding unemployment insurance, the precipitating occasion was the proposal for experience rating. That proposal was set aside because Rhode Island was 1 of the 4 States with employee contributions, and it was easier to divert some of these contributions to a special fund and create the cash sickness insurance system, than to wipe out the employee contribution and get experience rating through the legislature. That statement is only partially correct. The Rhode Island cash sickness insurance scheme has been in operation for 3 years, and for better or worse it is operating, constantly threatened—so it is alleged—with insolvency and potential breakdown. But it seems to hump along and has about as much money in its reserve fund as when it started despite the ominous forecasts and criticisms. There have been no surprises in it—by that I mean that I am not aware of anything that has happened that wasn't known in the literature of disability insurance. It is a going system.

It has led to the proposal for similar schemes in many States. Bills quite similar to the Rhode Island law have been introduced in several States: I think that the Rhode Island bill was introduced in 1 Western State without changing the names of the legislative bodies and in 1 place "Rhode Island" is retained.

If I am correct, at least a half dozen States are interested in establishing cash sickness insurance or temporary disability insurance schemes, like the Rhode Island scheme. Mr. Neustadt can speak more authoritatively about the outlook for the California bill, which is under very active consideration unless it has died within the last few days.

In New England, 1 or 2 public hearings have been held. In several Western and Southern States, bills have been under active legislative consideration. Certainly until we have some kind of medical care insurance, whether Federal, or Federal-State, or State, proposals for temporary disability insurance seem likely to follow the Rhode Island pattern, at least to the extent of linking cash sickness insurance with unemployment insurance coverage, the mechanism of collecting

contributions, wage records, and consequently in basic patterns of base years, benefit years, and various other elements. We would hope, however, to avoid carrying over such aspects of unemployment insurance as experience rating and other related characteristics.

There seems also considerable interest in a few States in setting up independent cash sickness insurance systems, but these proposals seem to have less political strength than those for the Rhode Island pattern.

I know of no proposal for State action in permanent disability insurance. There is general unanimity that any social insurance protection against long-term disability should and will be either in adjunct to or expansion of old-age and survivors insurance, with only such adjustments in finances as are necessary, doing for permanent disability much the same as survivor protection did in 1939 with respect to the death of the worker. The proposal now would be to extend the system to insurance against old age, survivorship, and permanent disability. Don't take the term "permanent disability" literally. We are inclined to hope for protection against disability which is long continued, as determined by a retroactive test, rather than insurance that would require not only a history of past disablement but also a prognosis of its continuance. Prognosis of future permanence would present very complex and difficult administrative questions. It is not impossible; as a matter of fact, many systems require such a prognosis, and it is successfully administered, but with each year's study we are becoming more inclined to believe that the prognosis of permanence is neither necessary or desirable. We still use the phrase "permanent disability," however, to distinguish it from temporary disability.

In this field, the outlook seems quite clear. It seems fair and justifiable to say that if at any time, when Congress gives substantial or careful consideration to the social insurances, it is extremely likely to adopt proposals for permanent disability insurance. There are evidences that the support for permanent disability insurance is very widespread and very strong, and opposition is relatively unimportant and limited and not likely to be politically strong. I think it is not overly optimistic to assume that the expansion of old-age and survivors insurance to cover this risk is one of the very next steps in social insurance legislation that we can reasonably anticipate.

Opposition, of course, comes largely from what I referred to earlier as vested interests, and I use that term without intending anything invidious. We may gauge the strength and nature of the opposition to such proposals by looking at the extent of voluntary insurance. Vested interests are much larger, in many respects, in temporary disability insurance than in permanent disability insurance. Yet by and large, we probably actually have more private voluntary insurance protection against long-term or permanent disability than against short-term or temporary disability. Whatever the precise magnitude of the figures, however, permanent disability insurance is waning rapidly, because with some minor exceptions, it is no longer sold, while temporary disability insurance is rapidly growing. The latter is still in the full flush and enthusiasm of a youthful business. Health and accident insurance had about \$225 or \$250 million premium income as recently as 5 or 6 years ago; it had over \$500 million for the last calendar year, 1944—about doubled in 5 or 6 years. Permanent disability insurance, on the other hand, is a waning business, because most insurance now held is in the form of a disability clause sold in connection with ordinary life insurance, prior to, say, the early 1930's. That proved to be an unprofitable form of insurance for the companies. They stopped selling it, and sold instead, a waiver of premium clause, merely a provision that the life insurance would not lapse if premiums are not paid when the policyholder is disabled.

In medical care insurance the problems are highly complex and diverse, because of methods of paying for medical care in a system developed from the existing structure of personnel, facilities, and resources. The complexities are worse confounded because the medical care field is in itself a multitude of fields, and proposals necessarily involve a diversity of plans in a diversity of programs, including professional education and research; problems of veterans and their medical care after the war; the extraordinarily complex areas concerned with the need for redistribution of personnel, if the medical care needs of large parts of the country are to be met. Whether or not we have an insurance means of paying for the care, we shall have special problems concerned with the construction of needed hospitals and other facilities, without which there can be no medical care worth very much by modern standards. We shall also have to solve the specialized and peculiar problems of developing further the public health machinery of the country, particularly of States and localities and blend-

ing into such a program the special programs for public health work and maternity and child health including the wartime program for emergency maternal and infant care. It is therefore not surprising that both those who favor and those who oppose social-security developments in this field often agree on the development of specialized and limited programs, as against the development of comprehensive proposals. We now have rather actively before Congress several specialized proposals, some of which have a fair chance of being enacted; in the veterans' field of course there are many specialized proposals.

A bill for hospital construction recently introduced by Senator Burton, on which there were hearings, has received very broad and strong support, and something is likely to happen. The special bills in the dental field have considerable support, and are likely to receive favorable action—both the bill proposing educational research and that proposing Federal grants-in-aid for dental education and dental services. A special bill deals with problems peculiar to nervous diseases, psychiatric diseases, and so on, and the Coffee bill deals with special problems of medical assistance. The only bill which has attempted a unified and coordinated attack on these diverse problems is the Wagner-Murray-Dingell bill, which died in the last Congress but, according to rumor, will be reintroduced shortly in revised form.

Opinion polls a national basis and some in special areas leave no doubt that public sentiment, by and large, is overwhelmingly in support, or clearly in majority support, of medical care insurance, whether at the Federal or the State level of action. There is a race as between inaction in this field, which will precipitate compulsory social insurance, and the development of voluntary insurance plans.

The medical society plans are flourishing like the green bay tree in number, but in accomplishment they amount to very little. Except in Michigan, none has met the essential test of its importance, namely, achievement of coverage. The Michigan plan has achieved large coverage, but at the price of having very limited scope of protection and uncertain tenure on life, because its size depends almost entirely on the good will of one labor union that brought it half a million members. The Blue Cross plans—also limited in that they deal only with hospital cost—have flourished. They now report something like 15 or 16 million members, of whom about half are workers and half are dependents. The very rapid expansion in the last 10 years, from 2 or 3 million to the present 15 or 16 is misleading; it has been achieved because new plans have been developed, but with 1 or 2 notable exceptions each plan has leveled off in membership, when it reached 10 or 15 or 20 percent of its population. The Blue Cross plans serve urban areas, by and large—10 or 12 percent of the population; if they have a free field for another decade, they may double in membership, but there is no indication they will do more. They are too expensive for people of low means and are extended with very great difficulty outside large urban areas.

Group insurance plans have grown. They now cover about 8 million persons but they, too, are limited because they are particularly applicable to persons who work for large concerns who are in standard or better-than-standard risk occupations and whose earnings are about average.

An unusually interesting development of the last year or two has been the achievement of labor-union contracts that provide coverage for medical care and disability, that is, wage contracts including a voluntary insurance contract, commonly at the expense of the employer. Whether that is something peculiar to wartime, when employers have money to use this way instead of turning it over to the Treasury in taxes, is not yet apparent.

Individual insurance of the indemnity-payment type has grown enormously, but still amounts to comparatively little. It has doubled in size from \$2 or \$3 million in premium income, to \$500 million or more, but that is rather small compared with the volume of risks needing coverage. Half of the \$500 million in premium income represents about \$250 million in benefit payments, because most of those companies operate at about 50 percent overhead costs. We have not less than \$3 billion a year and possibly more in wage loss from temporary disability, so that a quarter-million dollars in benefits represents a very small coverage of the national risk.

Many individual insurance contracts extend into the field of indemnity payments for medical care expenses. They reimburse the individual for the whole amount or a fraction of his expenditures for medical care. They are not service benefit contracts, as health insurance would be. Mr. Bronson told me that one insurance company wrote, for the first time in this country I believe, a service benefit contract, but if one is in operation, it is unique.

The voluntary programs, whether they represent the developments of non-profit organizations—like the medical-care plan sponsored by employer groups, employee groups, fraternal organizations, mutual benefit associations, and so on—or the commercial insurances of one sort and another, by and large still cover only very small fractions of the medical-care risk.

Recent proposals for governmental action have received enormous attention, chiefly because of the storm blowing around the Wagner-Murray-Dingell bill. The opponents of that bill have advertised its contents and their opposition to it in a manner which I think dwarfs anything of the kind we have ever had before in social security or almost any other field of social legislation. The National Physicians' Committee, the spearhead of the campaign, boasts that it has distributed something like 15 million copies of a pamphlet on socialized medicine and sends out releases to 12,000 newspapers a week. It admits having spent \$200,000 or \$300,000 last year, and has started a campaign to raise half a million dollars this year and each of the next 2 years.

It has done a remarkable job in instilling fears and spreading misinformation about the bill, as well as making some pointed and well-taken criticisms, and it has done an equally remarkable job in educating both the medical profession, other professions, and the public to realize that there is such a thing as medical care insurance. The results of the efforts of all the friends of medical care insurance for a generation do not compare with what the National Physicians' Committee has done in public education in 2 years.

During the last year what may have appeared like a unanimity of professional opposition has showed some important cracks. A group known as the National Health Program Conference issued a report which attracted favorable attention. The American Public Health Association adopted a policy statement and a series of proposals for a comprehensive national health program, including medical care so that a national professional association in the health field spoke out for the first time in favor of some such program.

In many States there were very important developments, reflecting active interest and the race between State action and potential Federal action. When Governor McGrath of Rhode Island proposed his hospitalization plan a year ago, he stated precisely what is being said and thought in many States. He said the State had only one real basis for opposing Federal action in this field, namely, the State proposed to do it instead. Not much has come of his proposal, I understand, except that a committee extended its studies and concluded that a hospital-construction program is necessary, along with the insurance plan, and perhaps extension into the medical-care field.

The Governor of New York State appointed a commission to study medical care, and it has been actively at work this year. In New York City, under Mayor LaGuardia's leadership, a health insurance plan has been, shall I say, in the process of being born, but has not yet been fully planned or organized.

California went through a period of gestation and a period of birth crisis of a similar kind, except that there, the issues were at the State level, and the CIO bill and the bill sponsored by Governor Warren had active consideration by the legislature. There were extensive hearings, and when finally the bills were pigeonholed by a committee with adverse reports, the issue was brought on the floor of the assembly; the last I heard the Governor's bill had lost by one vote on the issue of pulling it out of committee.

I would like to review many other developments but will add only that we assume that, when the new Wagner-Murray bill is introduced in the Senate, and the Dingell bill in the House, the revised proposals in the medical-care field will precipitate a new first-class row, and certainly precipitate very extensive discussions. Because of the active interest already shown in the Hill-Burton hospital-construction bill, it seems fair to guess that Congress will give favorable consideration in the near future to at least some parts of a health program or health legislation, at the Federal level, though how far it will be prepared to go with respect to particular aspects of the health front, I don't profess even to guess.

I do guess that the general climate of opinion will be generally favorable to action in the near future, at the Federal and State level. Despite the turmoil and heat that we can expect, by and large the issues will be not whether there will be action in this field—social security or social insurance legislation—but, rather, whether it will be primarily Federal or primarily State action, and how far and how fast it will go. The commitments of political parties, and the acute general public awareness of possible solutions to the problems of medical care costs and the needs for improved medical care services will mean action in the near future.

Discussion of health insurance

Mr. Bigge asked Mr. Falk if he sufficiently recognized what the Michigan plan provides and the amazing extent to which it meets the situation. Mr. Falk replied that he had summarized briefly. Voluntary and commercial insurance has done some fine things; voluntary insurance has done a better job than commercial insurance by providing service benefits, rather than indemnity benefits. In general anyone who has received the benefits has had something very valuable. Going up the scale to more and more rarified atmospheres, all these systems collectively have done a very important thing, in learning and teaching how insurance may operate successfully, in making and discovering mistakes, learning the problems, and developing answers. That has always been the function of experimentation. We can add it all up, however, and say that, with its advantages to individuals and to the collective knowledge to society, it has done an inadequate job, measured against the job that needs to be done. If we take some of the plans of the medical care type which are much broader in coverage than the Michigan plan—for example, the Endicott-Johnson plan, the Roanoke Rapids plan, or the Henry Kaiser plan—they give value to persons insured; they cover not only the hospitalized case, but the nonhospitalized case, the surgical case, and so on; hence their service to the individual may be more valuable than the Michigan plan may be, considered statistically. Our major criticism is not in the job they have done, but in what they have not done.

When Mr. Bigge pointed out that the Michigan plan paid benefits for a fairly long time after the patient left the hospital, Mr. Falk said that what the plan provides is adequate for the individual who suffers the kind of risks which the contract covers, but it is worth nothing to the one who is under the plan and suffers a risk not covered by the contract. Mr. Bigge then said that such criticism would hold for any plan, public as well as private, and Mr. Neustadt added that it was also true of old age and survivors insurance and old-age assistance.

Mr. Bigge went on to say that the figures given for voluntary disability insurance protection against wage loss—\$300 million in benefits against wage losses of \$2 billion to \$3 billion—gives just about the same ratio that Lester and Schlichter find for unemployment compensation; that is all we can expect, they tell us. If that is true, in 5 years these private plans have developed a system that is as adequate in terms of compensating wage loss from temporary disability as our public system of unemployment insurance is in protecting against unemployment. Mr. Falk then said that the private plans had doubled in 5 years; in all, it had taken 50 years for them to reach this point. He suggested that the statement might be turned around, by saying that we are as much dissatisfied with the one as with the other. Mr. Bigge, in reply, said that we are likely to think that a public system will be perfect as soon as we get it, but we can't expect perfection in any system. Mr. Falk then indicated that some of the greatest difficulties arise in these fields because we do not start with a void; we start with an extensive system of insurance practice, some of which is very good, whether voluntary or commercial, and some very bad, whether voluntary or commercial, while much lies between those extremes. Some is unwarrantedly expensive, a statement which applies to the noncommercial as well as commercial insurance, and some is very efficiently administered.

Mr. Neustadt then reported that in California the Governor's bill and the CIO bill have been reconciled in one bill, which was scheduled to be reintroduced May 2. It has a sporting chance to become law, but a better chance to get through as a referendum. The major compromise is that both sides agreed to let local authorities decide whether they would use the capitation system of payment. The choice would be made by each area, and not by the State as a whole. Health authorities must consult with the citizens on the one hand, and doctors on the other, before reaching a decision. Another compromise was that the income limit of \$5,000, which the Governor wanted, has been waived; the service will be available to everybody. The point of relation between the doctors and the public in the advisory body had not been absolutely settled. The original plan was to have 2 representatives of labor and employers, 2 doctors, a hospital administrator, a farm representative, and a public representative, as chairman. The governor had insisted that the hospital administrator be a doctor. The unions accepted the advice from our office on that. We thought, from experience in that kind of law, that the employer and labor members would gang up together and that the compromise position would be safe.

When Mr. Powell asked if agricultural workers were covered, Mr. Neustadt said yes, their contributions would be collected through the unemployment-compensation system. Mr. Neustadt then asked why the Federal proposals did not include unemployment protection for farmers and other self-employed persons.

Employment offices, he said, are available in all agricultural areas. Mr. Powell said that there was one very good answer: it is difficult to determine when a tenant farmer or sharecropper is unemployed; and Mr. Bigge added that a farmer may work on his own farm one day and elsewhere the next. Mr. Neustadt then pointed out that in the veterans' program unemployment among the self-employed was measured by earnings of less than \$100 a month.

Mr. Wrenn queried whether the objective of health insurance would be accomplished by a system tied to unemployment compensation coverage when disease and disability are highest among low-income groups. Mr. Falk indicated that both California bills provided for extending coverage as rapidly as possible. The authorities would have to report within 3 months on how coverage could be broadened. Mr. Neustadt amplified the statement by saying that voluntary coverage is included now. Although agricultural labor is not very well unionized, many want to come in. In reply to Mr. Bigge's question whether coverage could be elected or dropped at any time, Mr. Neustadt said that persons would have to stand by their decisions for a year.

Mr. Lyle then asked what objections had been reconciled in the new Wagner-Murray-Dingell bill. Mr. Falk replied that he didn't know what it will contain; judging by much that has been made public on its medical-care aspects and the correspondence we know the Senators have had with interested groups, his guess was that it will clear up several points on which there has been misunderstanding or on which the 1943 bill lent itself to the kind of things said about it by the National Physicians' Committee and others. For example, some hospital groups feared that the administrative authorities could interfere with the internal management of hospitals. The Senators have indicated they mean to provide that no such authority will rest in the administrative authority. Some medical groups favorable to the 1943 bill criticized it severely on the grounds that it seemed to encourage different methods of paying doctors and hospitals. They argued that the best medicine practiced in the best hospitals is medicine in which the services of the staff, the attending staff physicians, and the services of the hospitals, are united rather than separate; and that provisions of the 1943 bill would actually work against the desirable trend. The Senators have indicated that that was not their intent and they would clarify those provisions to indicate that nothing in the bill on methods of payment was to limit in any way the right of the Surgeon General to negotiate mutually agreeable contracts between the insurance authority and the hospitals to cover inclusive services, for hospitals and their staffs, whenever they wanted to operate that way. For example, there was discussion whether an organized group, like Henry Kaiser's could or couldn't readily operate under the bill. The Senators have said publicly that such groups would not only be welcome but could be paid through mutually agreeable contract arrangements for all the services of diverse kinds which they rendered to people who chose their services.

Mr. Beasley then queried whether there were any discernible effects on the activities of these groups resulting from the National Physician Committee activities, the survey of the chamber of commerce and the National Planning Association's report of public opinion. Mr. Falk replied that the opinion poll of the chamber of commerce had considerable influence in crystallizing opinions, say, among employer groups. The same is true for a number of other surveys and reports, but he didn't think that these undertakings had had very much direct effect on the public generally. They may have operated indirectly, in that they reached leaders in civic affairs and public opinion, who in turn influenced public opinion. The pamphlets of the National Physician's Committee, however, went direct to the public in millions. Their releases to the newspapers reached a very large share of the press of the country—magazines, periodicals, newspapers. Their speakers' program led to public discussions and debates and forums in hundreds or thousands of communities, and literally must have reached millions of people, who heard discussions of these questions, in addition to those reached by ear, and by eye by these pamphlets and advertisements in the newspapers, and so on.

The effects were specifically evident, for example, when the California Medical Association became worried about public opinion and engaged a public relations counsel to make a poll for them. Perhaps to their surprise, their public relations counsel reported that 50 percent of the people of California, would vote for what the interviewees called Federal medicine, as distinguished from present practice or voluntary insurance, which is a creature of the California Medical Association. The California Medical Association and the people who ran the poll seemed of the opinion that the poll reflected largely all that had gone before in California, which had a long history of discussion of insurance and voluntary

insurance, and also the campaign waged by the National Physicians' Committee. Use of the phrase "Federal medicine" reflects the fact that the National Physicians' Committee had been addressing the public on Federal medicine and federalized medicine, as distinguished from State medicine or State-proposed plans. Mr. Neustadt verified this statement by saying that even more loaded in its wording was a questionnaire sent to family groups. It said in effect, "Would you be in favor or against the proposal for State medical care insurance, knowing that you and your workers will not be covered and that you will have to pay \$100 million more in taxation?" And 30 percent of the replies favored it anyhow. Mr. Bigge asked if they said yes because they wouldn't be covered. Mr. McCarthy asked if the violence of the Physicians' Committee might prove a boomerang in that people would no longer react to violent language. Mr. Neustadt replied that "Newspapers all over the State ran editorials on the fact that the California Medical Society gave a dinner to the legislative committee the night before they voted. What the moral of it is, he didn't know.

Mr. Harper asked about probable effect of medical care for veterans and their families on the rest of the population. Will they wish the same kind of service and what influence is it likely to have on doctors? Many young doctors will go into this kind of service. Mr. Falk replied that the question was double-barrelled. Many inquiries have been made to find the opinions of both medical and lay officers, the reactions of men in the Armed Forces to the medical care they have been getting. For a while it was reported that the men didn't like it, then different reports began to come in. In the last 12 months, we have heard that the men are overwhelmingly enthusiastic. The first reports were from men in camps, later from men overseas, on fighting fronts. The men here were grumbling because they had to stand in line and were confined to barracks. The others are talking about the services they receive when they are wounded. It appears that the bulk of the men think they got very good service and are proud of their medical organizations. Probably most will come out with the attitude that if this is State medicine they want a lot more of it. They say if the doctors can give them these services under the regimented conditions of army life, they will not be frightened by State medicine or regimented medicine.

The doctors have been polled about their postwar plans. The poll was conducted for the Army, Navy, Coast Guard, and Public Health Service by the American Medical Association, by an Army officer detailed to the AMA headquarters. There were no questions on doctors' views on future methods of paying for services, so we know that only from very conflicting secondary reports of opinions. We do know from the questionnaire returns of some 15,000 to 18,000 doctors in service that 63 or 67 percent report they do not intend to return to their former kind of practice, but will look for a job in one or another governmental organizations, veterans' facilities, and so on, or in group medical practice. They are not coming back to the kind of medicine they practiced before, but to the kind that modern medical schools teach them to practice. It might be inferred that they will be open-minded about the changing conditions and character of medical practice, and that that attitude is likely to carry over in considerable measure to methods of paying for medical care. Two councils which have been created to set up machinery for providing postgraduate educational opportunities for men returning from the armed services are actively considering what courses on medical economics need to be included.

Mr. Powell then called attention to Mr. Bigge's general question about the disequilibrium, the poor adjustment, among certain levels of our society, certain areas of the country, as well as the international disequilibrium. He went on to say that in California they propose to hook health insurance to unemployment compensation because they have an existing machinery to collect taxes. He spoke also of Mr. Falk's statement about the irrationality of distribution of practitioners and hospitals and the lack in rural areas. Need is great among the farm population because better fees, better facilities, have attracted the doctors to the cities. The net result, apparently, is that we are headed for a harder time in getting services to the farm people, from the standpoint of doctors, finances, collection of contributions, and perhaps attitudes. If we are trying to equip the group that is now ill-equipped to compete in a competitive society so they can maintain their position and thus to get a more rational distribution of income, it looks as though we ought to be talking about methods of approach. If the trend is going to militate against getting services to the people who need them most, should we discourage—is there any way to dis-

courage—hooking sickness insurance, if it is going statewide, to unemployment compensation which doesn't cover agriculture?

In reply, Mr. Falk asserted that one virtue of hooking it to old-age and survivors insurances is that we would start with broader coverage and proposals for still broader coverage. In his opinion we shall have lots of trouble getting broader coverage, but less trouble in old-age and survivors insurance than in unemployment compensation. The argument is stronger for national coverage in medical-care insurance than in old-age and survivors insurance. Service benefits should extend to the whole population, and not even be limited to persons in gainful work. If we went another step, we might argue for State medicine and general taxes to finance the program as against insurance contributions, he said. When Mr. Bigge asked if there was any difference, if we had universal coverage, Mr. Powell said that people think better of a system if they are contributing directly to its financing. Mr. Bigge went on to ask why that would argue for general tax financing; if we have a contributory system as a convenient method for collecting the tax, why a general tax; why not finance it through an income tax, rather than a general tax?

Replying, Mr. Falk stressed this advantage; assuming that one type of financing is as feasible as the other, we can attach insurance contributions to a wage history or direct connection with the labor force. That will leave out some groups, not a very large proportion of the population, but still substantial groups. We shall have to provide patchwork remedies if we want to bring them in. The assistance group and people who need assistance but are not receiving it form another group. If we have exemptions because of other insurance schemes—railroad retirement, State and local government retirement, civil-service retirement, and so on—we may still need to invoke some general tax revenues to bring in these residual groups, even though we have broad coverage under old-age and survivors insurance. As a practical matter, we would probably argue very differently, that the psychological factors are not ephemeral but are real and important. This patchwork coverage all of which may not be included at once, may in a decade or so achieve substantially the same coverage we would get if the Government financed the whole thing out of general tax revenues. In other countries moving toward national coverage, people have avoided the historical stigma of getting something seemingly free from government and have wanted the advantage they get from having paid an earmarked contribution. When Mr. Bigge agreed that this is the advantage of a contributory system, rather than a general tax system, Mr. Falk further stressed the need for broad insurance coverage and some patching from general revenue.

Mr. Powell then asked if any stigma was attached to methods of financing public education; eligibility for schooling is not conditioned on tax payments. Mr. Falk suggested that education had started without the stigma which historically is associated with free medical care for indigent persons. Starting 100 years later with medical care, won't we find that a large proportion of the population won't want anything that resembles medical assistance. When Mr. Powell further queried whether private education hadn't antedated public systems, Mr. Falk asserted that only a small proportion of the population had had private or parochial school education. Mr. Neustadt then offered to send in examples of material used in 1835 against public education; the same fight was made against special earmarked taxes for education as now against any earmarked money. Mr. Bigge pointed out that education is absolutely essential in a democracy to enable the citizen to discharge his responsibility; it can be argued that we are not giving him anything, it is not charity. We are requiring him to accept something for the benefit of the State, not for himself. That is the argument he said, that got many people over the hurdle. Mr. Powell then declared that Selective Service figures give grounds for the same conclusion; we can argue that furnishing treatment of the body is as essential as furnishing treatment of the mind. When Mr. Neustadt remarked that the argument is being made in relation to financing assistance from an earmarked liquor tax, Mr. Powell asked if there is not some difference in earmarking a tax for a purpose. Mr. Neustadt then said that schools are run by earmarked taxation.

Mr. Powell went on to say that he saw no feeling that people think they are getting something for nothing when they can send their children to public school. We say people like a system better if they are contributing directly and have their right to the benefit conditioned on their own payment. Perhaps that isn't as strong an argument as we thought. There may be an analogy in furnishing medical care and furnishing education. One has gone in one direction; we are starting the other in another direction. There seems some additional value in a general tax, collected as other taxes are, rather than a new mechanism if one

has to be set up. The solution in California might have been easier, if they had proposed to collect the tax as general taxes are collected, rather than to attempt to exclude a large segment of the population on the basis that this other method was too difficult for them to use.

Mr. Kasius asserted that if medical service was as highly institutionalized as education, the situation would be less difficult. We have to think of it in terms of individual service, from practitioner to patient; the institutional factor made education easier to deal with. Mr. Falk added that in education we are seeing what has happened after 100 years; in medical care we are starting. Perhaps in medical insurance we may have to start with an earmarked tax—the only way in which people would want to do it and want the product they can get. If it is adopted in 1945 or 1946, people may say by 1950, "We are not interested in the earmarked tax; we want it just like education." Mr. Harper added that he thought the opposition to free education ran that the students were morally damned by it.

Mr. Powell then asserted that we ask where the system can be best administered, but have to consider history, political expediency, what people accept at the moment, what they like, and we come out with compromises on principle, accepting what we can get and advancing as experience accumulates and attitudes change. Mr. Harper called attention to a recent press digest which gave a generally sympathetic appraisal of the Rhode Island system, and yet pointed out grave weaknesses. It mentioned the extent of duplicate checks, and said that the proportion of beneficiaries to contributors was very high. Have we pointed out to State administrators the danger of blindly accepting the Rhode Island plan? Mr. Falk replied that the Interstate Conference group had received extensive information, and also some misinformation from prejudiced sources. Many people working on State bills are acutely aware of the problems and reasons for the problems. Some problems result from flaws in the Rhode Island law or in the amendments passed a year or so ago. For example, the original law did not pay cash sickness benefits when the worker was eligible for workmen's compensation, but an amendment made both payable simultaneously. In a number of cases the combined work-connected injury payment thus actually exceeded what the worker would be earning if he were working. Though that is infrequent and doesn't account for much administrative trouble, it receives considerable publicity from certain quarters. A sick person who continues to receive his wages can also receive sickness benefits. Some State unemployment compensation administrators are well aware of the fact these are pitfalls that need to be avoided.

Some problems have resulted from administrative weaknesses. It was not until the second benefit year that the State administration set up any substantial checkup machinery on the certification of disability. They had loose certification procedures, so that, with a little collusion from the doctor, benefits could be drawn while people were working. In view of the use State people were making of the Rhode Island provisions, we prepared a document, which you probably received, indicating what we believe the most useful specifications for a cash sickness plan of the Rhode Island type linked with unemployment insurance and not involving medical care—indicating a rationale to be considered. Rhode Island experience, for better and for worse, has already begun to play a very useful role in informing and educating people interested in developing similar plans in other States.

In adjourning the session, Mr. Powell said, "I think we have all been allergic to the results of some of our past meetings, toward too much by way of lecture and not enough by way of discussion: this session has been fine. We probably have not had enough time to discuss as fully as we would like, but that is in the nature of a meeting of this sort."

Mr. Kasius, presiding, remarked that this third session, devoted to public assistance issues and questions, would start appropriately with remarks by Miss Hoey, Director of the Bureau.

Significant trends in public assistance (Miss Hoey)

In 1945, 45 legislatures have been in session and 28 have adjourned. We have received 1,542 bills thus far, and feel that 584 are very pertinent to public assistance, not including bills relating to personnel; 119 bills definitely relating to public assistance have passed.

Of 69 bills relating to State or local organization, few actually went through. One bill wanted to transfer the State director of public welfare's position to the State treasury; another proposed to abolish the State board and department of public welfare, and transfer the duties to the State executive council, consisting

of the governor, secretary of state, State auditor, State treasurer, and secretary of agriculture, and all local administration to the county boards of supervisors.

Probably the largest number of bills—126 in all—have related to increase of elimination of maximums, one of the more desirable trends toward liberality; 37 State legislatures proposed to raise or delete the maximum in 1 or more of the 3 assistance programs. Some States introduced as many as 12 bills—California, for example. Most bills related to aid to the blind, some to aid to children. We are not yet sure how many will be passed; 12 have raised maximums and 7 have deleted them—3 for aid to dependent children, 2 for aid to the blind, and 2 for old-age assistance.

Eight States have increased their appropriations for all three categories, but we do not know to what extent.

Eleven bills were introduced to remove lien provisions—17 States now have lien or other security devices; and 13 bills would amend lien provisions by exempting the homestead or non-income-bearing property. On the other hand, 4 States have proposed adding a lien provision. Thirteen States proposed either removing or amending the relative-responsibility laws. Massachusetts had as many as 8 bills proposing deletion of the responsibility of relatives provision; that State has tried to fix the amount of contributions on the basis of income, which is difficult to work out. Ten bills liberalized such provisions.

In 9 States, 12 bills have been introduced to increase burial allowances; some would pay the expenses of the last illness.

On age, 17 States have introduced bills liberalizing requirements in all 3 programs. Ten bills would raise the age limit for children to 18 years, if the child is regularly attending school; 32 States now aid dependent children between the ages of 16 and 18, if they are regularly attending school. Three bills would lower the minimum age for aid to the blind, and 17 would lower age requirements for the aged to 60; of these, 2 apply only to women. Three or four bills relate to verification of age.

On residence, 13 States have introduced legislation. Fourteen bills propose reducing residence requirements. Today, however, we know of only two that have passed; they reduce the requirement for old-age assistance, and aid to the blind to 1 year.

Five bills propose to change or remove citizenship requirements. North Carolina has deleted its citizenship requirement.

Seventeen bills would extend eligibility to people living in private institutions. Some bills have related to fair-hearing procedures, but we have not received any of those and do not know whether any passed.

There have been 13 bills to raise personal property exemptions; some would disregard certain income. Fourteen bills would raise the property exemptions. Two States have passed bills which would invoke Public Law 45, which has recently been amended to exempt earnings of nurses working as "employees" as well as agricultural labor.

There has been a little activity toward amending or clarifying assistance standards. Two States have bills increasing the food and clothing budget for old-age assistance recipients. Another sets up a budget for the blind and for children. One State proposes to include other persons in the household in the payment for aid to dependent children, in spite of State Letter 35.

On the fiscal side, 143 bills have been introduced, including bills for appropriations, for changing the ratio of State-local participation, for taxes to increase old-age assistance funds, and several to amend fiscal procedure.

Three States have bills which would set up new programs. Alaska has passed one on aid to dependent children, which means that Nevada is the only State without a children's program. Delaware has passed one for aid to the blind, so that now only four jurisdictions do not share in aid to the blind.

By and large, the trend seems toward greater liberalization in granting assistance and recognition of the rise in living costs. Now the rise in the assistance grants sometimes merely keeps in line with that in cost of living.

The aid to dependent children payment in June 1940 averaged \$32.16 a month and had risen to \$45.58 in December 1944. That is for an average of 2½ children. Of course it is still not adequate. The old-age assistance average was raised in the same period from \$19.92 to \$28.42; aid to the blind, from 23.53 to \$29.41.

In October 1944, however, 11 States still had old-age assistance averages under \$20. Eight States averaged less than \$20 for aid to the blind, and one State had an average of 20 for aid to dependent children. That State, Texas, has a maximum of \$24, no matter how many children the family has. Fifteen States average less than \$20 for general assistance cases. The increase for that program is generally much less than for the others.

Federal grants to States from February 1936 through March 31, 1945, for all programs under the Social Security Act totaled \$3,342 million. Of this, old-age assistance received \$2,264 million. For children, in contrast, we have granted \$416 million; for the blind, \$64 million. The figure for grants under the Social Security Act includes public health grants, the three programs under the Children's Bureau, unemployment compensation administration, and our three programs.

The old-age assistance caseload reached its peak about June 1942, with 2,254,000 recipients. In December 1944 it was 2,059,000. For the current year we are counting on about 1,900,000. The peak load for families with dependent children was reached about the same time in 1942, with 396,000 families. In December 1944 the rolls included 255,000 families. In some States the decrease in the recipient rate for children has been very great, 35 to 40 percent. There is a leveling off, however, at the present time, and a beginning increase in the children's program. The program for the blind now has 56,000 recipients, more than there have been.

States seem to be paying less attention to laws and administration, that is, the administrative agency, and to be spending more time on content, which is as it should be.

There is much to be done in organization; perhaps we can point out some of that to the States. The Wagner bill called not only for State administration by one agency but also for local administration by one agency. Time was never more opportune than today for interesting the States in unification at the local level. Recently I was in a local community in Ohio where there were four local administrative units. One of them had a full-time worker for 15 cases; another, a half-time worker for 35 cases. The State administrator said he would welcome a Federal requirement of unified local administration. Local people fear to take the onus that will come from suggesting it; we should discuss with the States how it could be brought about. In Delaware, with the new program we have three State administrative units, which is ludicrous.

Many restrictions in State laws need to be removed. We have recently issued a report on families receiving aid to dependent children in 16 States, showing race, size of family, and reasons for dependency. It shows clearly that practices in some States result in aiding relatively fewer needy Negro and Indian children than white children. Very few one-child families are receiving aid. Intake practices seem to give the community the impression that you ought to be able to support one child. If the mother is ill, there is no reason at all why such a child should be declared ineligible.

In several States certain needy children failed to receive aid because of State requirements which are narrower than those specified for Federal matching. Many children are discriminated against by the suitable-home provision in some State laws. I don't know of anything more subjective than the interpretation of "suitable home." We have been trying to see what is the function of the courts in regard to suitable home, and to encourage the States not to use public assistance as a means of judging and punishing children because the State or community doesn't like the behavior of their parents. The unsuitability of the home may have arisen from the family's continued lack of a regular income and at least we ought to encourage taking the chance of putting some money into the home. If that doesn't work, let the court make the decision, not the public assistance agency.

In some States many children are denied assistance because the parent must have deserted for a definite length of time or the mother must have taken court action against the man. If the parent is incapacitated, frequently the incapacity must have long continued before the children are eligible. We have said that the moment there is a determination of incapacity, the child is eligible for care. This study suggests many ways in which the program could be liberalized even without legislation.

There is greater general interest in finding out about medical care—what medical care should be available and under what conditions it should be given. We are preparing a monograph on the administration of medical assistance that we hope will be helpful to the States. Some experiments have been tried and consultation service to some States has brought rather interesting experience. Rhode Island, for example, is trying out in one small community a pamphlet written by Mrs. Weaver of our staff, to tell the individual about his rights in relation to medical care. When an old man called at one office for help they said, "You are not eligible for that," and he said, "Yes, I am; here it is in the book before me." We think it very desirable that people should know under what conditions they are eligible.

We are undertaking, with the Bureau of Research and Statistics, a study of the volume and cost of medical care, to be participated in voluntarily by the States. We do not know how much is being spent for medical care, because so much of the expenditure is made by the local county commissioners out of general assistance funds, rather than through the assistance payment.

We are also attempting an analysis of methods used by five States in determining need. We are considering working not only with bureaus of the Board but also with other Federal agencies, to see whether it is possible to set up the items which should be included in a standard of living—the minimum essentials—against which we could judge either insurance or assistance payments. In this project we might join the Bureau of Labor Statistics, the Bureau of Home Economics of the Department of Agriculture, and some other Federal agencies. We have long been too haphazard in judging whether or not assistance payments are adequate.

We still, of course, have an enormous number of staff vacancies. In some States the situation is serious because primarily the trained people have been the ones recruited by the Red Cross, UNRRA, and other agencies, as well as the Army and the Navy. There is, however, more desire for information and materials on in-service training, and not merely on just a procedural basis, which was the previous emphasis.

On finances, one of the greatest problems continues to be the utter inability of the Southern States, by and large, to finance this or other necessary public service programs without additional Federal aid. This year Kentucky, which now spends \$4.4 million for its assistance programs, was going to cut the payments—previously 70 percent of determined need for the aged and blind, and 50 percent for children—to 43 percent. We felt we were in a weak position to recommend increased expenditures, until we looked at their whole fiscal picture because we have no right to push our program at the expense of other equally necessary public services such as health and education. So the available material was collected, most of it published census material. We concluded that the State probably needed to spend \$11.5 million for even an average program and could spend about \$5.5 million. Why talk with those States when such circumstances exist? But it is very important to give facts like that to the Governor to present to his State officials, so that they can have a factual picture and interest their Senators and Congressmen in additional Federal aid.

We should give the regional offices many more facts of that kind, State by State, to discuss with the States—not only material about the relation of Federal money to the States, but also about the States' expenditures in relation to the locality. This year the Bureau of Research and Statistics and our Bureau have undertaken a study of the distribution of Federal, State, and local funds from the point of view of the administrative review, in actual terms of the average payment, county by county. The variation is so great, even among counties of about the same size and fiscal ability, that it seems clear we should insist on a statewide standard of assistance. We have not been able to insist on it because the States frequently do not have enough Federal funds, or enough State and local funds.

Can you ever have a single State agency and statewide standards of assistance if the local financial contribution is the determining factor, as it often is today? The wide variations within a State are determined partly by the capacity of the locality, but also partly by administrative determinations. The county commissioners say, "We won't put up this much," or a local board passes on all the cases, and they say, "We have known those families for many years—they won't get it." When that is true, you don't have statewide administration and you kill off any idea of fair hearings.

We wonder about a fiscal plan under which a State has greater financial participation in relation to the fiscal capacity of the locality and has some direction of those localities in terms of meeting the determined needs of individuals from Federal, State, and local funds. Most of us in fact would like only Federal and State financing, without any local financing except in large industrial States. State participation, however, does not always insure adequate treatment of individuals.

On the whole question of the understanding of the assistance programs, confusion still is great. Old-age insurance beneficiaries are still too few to make for a balanced understanding of insurance. On the other hand, the number of fatherless children now getting insurance benefits about equals the number of children receiving assistance because of the father's death.

I would like to have suggestions of anything more we can do to make the States aware of the needs of children. Dr. Woofter's article in the December

Bulletin showed that children are concentrated largely in about one-seventh of the families—the families with 2 or 3 children. We are an aging population and are making large expenditures for the aged and very small expenditures for children. Should we be doing more for at least the children we have?

In aid to the blind, we still have pressure groups. The pension program in Pennsylvania is one of the largest programs for the blind in the United States. Because a small group can bring pressure on the legislature, only 13,000 of some 30,00 are eligible under the State programs because of its definition of blindness, residence requirements, and so on. People who are receiving these pensions appeal to the sympathy of the legislature and others have no aid.

Discussion of public assistance trends

Mr. Lyle declared that some States in region VII might be an even better example of fiscal difficulties than Kentucky. A present appropriation of 6 percent of all State revenue for public assistance is about all States in that area can stand. And State revenue is now higher than it may be for years, while the case load is likely to be higher soon. Miss Hoey said that Kentucky had some surplus, with \$5 million bound for institutional building for which they couldn't get priorities and \$3 million for education now needed. Miss Woods reported that the Governor of Kentucky called a special session to appropriate funds for this June and gave wide publicity to the board's statement. Newspapers, in particular, brought great pressure to increase the assistance payments to 100 percent. Public pressure is such that the increase may be made eventually.

Mr. Kasius asked if recent increases in assistance have been general throughout the country. Miss Hoey replied that they had and added that at present Federal funds pay only 35 percent of the cost of aid to dependent children. Mr. Harper asked if aid to dependent children is nearing its limit under present Federal matching maximums. In Utah Federal funds represent only 25 percent. In New York only 26 percent, Miss Hoey said, adding that it's a question of the States' influencing Congress; we have done all we can.

Miss Engle pointed out that pressures for old-age assistance came from organized groups direct to the Congress. Objectives in aid to dependent children may not be reached by waiting to have interest carried to Congress via State political channels. More direct interpretation is needed. Miss Hoey reported that she had given new Congresswomen and others factual information on the situation in their States and thought the results good. Mr. Kasius said that reference had been made to unwillingness of local communities and local officials to accept standards of adequacy. Yet that is the group which really influences Congress. Congressmen are closer to the local administrators than to State administrators; they are likely to pay attention to letters from county commissioners and county judges. Miss Engle added that the congressional delegation is often in political opposition to State leadership; the Governor and Senators may head different political cliques.

Miss Hoey said she wished to mention the use of public welfare departments for administering civilian war assistance and enemy alien programs, relocation of the Japanese, and Selective Service investigations. In administering these programs, the welfare agencies were not restricted by law or lack of money, and the concepts of many workers have changed. Often they had not known what could happen if there were enough money to do something for families. The Immigration Service, which often had few facts on families to be deported or to be divided by deportation of one member, say they would like to have social investigations in peacetime. We have never had better working relations with more Federal agencies than at the present time, and there seems to be a desirable trend toward having other Federal agencies use the State, instead of building up a Federal staff, when they wish to have something done in relation to people in localities. Selective Service is very enthusiastic. Some areas still have poor investigations; doctors in some centers still refuse to accept the investigations, or even the recommendations of the psychiatrist, but there has been much improvement. Miss Woods said that the Selective Service activities have given the local agency status in the community.

Mr. Lyle asked when hearings begin before the House Ways and Means Committee and if they would give an opportunity to sound off on Federal amendments. Miss Goodwin replied that hearings were expected in the late summer or fall.

Mr. Harper asked if the President was the only one for boosting the appropriation for aid to dependent children? Miss Goodwin pointed out that next year's budget had been submitted on the basis that the war would continue

throughout the year on both fronts. The change in the war made increase in assistance estimates necessary. Mr. Wrenn said that Harry Truman, as a county judge in Jackson County, Mo., had occasion to know about assistance. Miss Hoey said the Bureau anticipates increase in assistance needs when men come back from service, when the allowances are stopped, when mothers lose jobs.

Mr. Harper said that State people across the country are looking to ideas for expansion and simplification which have been under discussion for some years—variable grants or any shift in lines between the so-called affluent States and less affluent States. Miss Hoey said States also want a fourth category. The danger in categories is that you lose people in between the lines. A fourth category will have to be defined, with eligibility requirements. The question of residence is terrific, with at least 3 million people who have moved and lost eligibility in one State and not gained it in another. She hoped that if the States set up a fourth category, they will have a really integrated program. On the other hand, we should not lose the advantages that have been gained in recognizing the special requirements of particular groups. Unless States maintain an interest in such requirements and in rendering service in terms of them, we shall have lost something. There is some fear that integration means going back to the old poor law; certainly we don't want that any more than do the people who want categories. Mr. Harper asked if this is a good time to press for the fourth category. Miss Hoey replied that the revised Wagner bill may be reintroduced soon and that there may be hearings on it.

Mr. Beasley asked how tough is a residence requirement of not more than a year? Miss Hoey replied that she was not very enthusiastic about it. The APWA said that if we can't eliminate residence requirements, we should have the fourth category depend on no residence requirement. California is afraid of removing residence requirements and you can hardly blame them. It was proposed there that any person who has been receiving assistance from another State while living in California—even if he has lived there for 5 or 9 years—will never become eligible in California. Mr. Neustadt reported that Californians say they would cut out residence requirements if other States did. Otherwise the people in California say they could defy the Federal Government. They could cut off Federal grants, and be even again. Colorado is paying more than 600 people in California. Miss Hoey added that Colorado is paying assistance to 1,000 people outside the State.

Mr. Neustadt said that it has been suggested that the Federal Government give 100 percent of the payments to people who do not meet State residence requirements. Why should we moralize about the States when the Federal Government doesn't put up more? Miss Hoey replied that with 3 million people moving there would be a special group of people and the States would try, in administration, to make everybody eligible for that 100-percent. She thought unsound the proposal of the Public Health Service, at the request of the public health commissioners, to pick up all the cases of tuberculosis among nonresidents in the community; why tuberculosis, more than mental or other diseases? One can't approach the problem in categories of disease or assistance. California could be liberal in aid to dependent children in terms of those ineligible now who might be brought under the program. We can't wait; we have to press on. Mr. Neustadt said we can't wait for Congress, but we are waiting. Miss Hoey replied that the States can do something. The Southern States are at their limit but some of the others can do something. Even with the available Federal and State funds, a much better job could be done under a State fiscal plan. Mr. Neustadt said that would be true even with a Federal fiscal plan. Miss Hoey agreed.

The force of public opinion on the future of public assistance versus Insurance
(Mr. Neustadt)

I asked your committee to reverse this subject to read "The Force of the Future of Public Assistance Versus Insurance on Public Opinion," but they held no. The topic you assigned me deserves serious research and sound philosophic analysis. Perhaps you selected me as a typical wild ass of the West. I prefer to believe it is because the States in region XII have always approached the problems of security against the hazards of life in a spirit freer of the platitudes of finance and less trammelled by the rigidities of tradition.

Public opinion is like the elephant, of which no wise man could see the whole. I shall use it as a synonym for "common sense." The craving for security is common to all men, irrespective of their place in life, their political faith, or their economic sectarianism. They are confused individually over how best to secure it. In the West, at least, they are also confused by the detailed meth-

ods with which their Government, as their great cooperative, is attempting to secure it for them. Perhaps we have helped to confuse them, perhaps because we are ourselves confused, but more fundamentally because we have not as yet been able to demonstrate our thesis completely.

In these first 10 years the public has been able to see only a partial insurance program, and an assistance program that, despite our philosophy, is growing apace and providing more adequate help to those most in need. Our nice logic, our declarations of intent, may arouse an acceptance of our goal. Skepticism is generated, however, by the time lag in performance and the harassments involved in hammering out detailed administrative interpretations. If we are to estimate the force of public opinion on our movement, we must think of our present performance, with all its limitations, rather than of our broad objectives for which we still have to fight.

Our thesis of social security is that the primary protection shall be a financially and socially sound system of social insurances. Public opinion in the west coast accepts this concept completely, but challenges the extent to which our present act and our performance satisfies either the social or the financial soundness of our plan. We believe insurances must be supplemented by a modernized form of public assistance for those who fall into need beyond the average. The west coast would accept this, too, if our insurances were sufficiently mature and liberal and universal to make assistances in fact supplementary rather than dominant.

The puzzles within the picture are most clearly illustrated in the field of old age. What the west-coast people want instinctively is old-age security, achieved in the simplest possible way, with an outright grant that is clearly adequate and based on age alone. They do not want casework measurement of individual need. Neither will they accept as adequate the meager benefits of our present retirement insurance, with its results of inadequate, rocking-chair money. This is no new want; California enacted such a flat-grant pension to its senior citizens into its Constitution in 1879, to be an automatic first call on the State treasury. In Oregon in 1945, the Townsend initiative for a flat \$60 a month, paid out of a gross-income tax, was fought vigorously by the predominant, conservative business groups of a State where the labor movement is weak and tax capacity meager. It lost by the narrow margin of only 29,000 out of a total vote of 380,000. The west coast's persistent yearning for a flat pension is not a wild, uneconomic plan. The important motives are, of course, to provide adequacy of amount automatically as a right granted to at least those who had earned this right by long years of contribution to the productiveness of the State and to the tax collections of the State. The demand is not against contributory old-age and survivors insurance, but for adequate pension benefits, irrespective of the exact nature of the taxing provisions. Duality of reliance upon insurance and assistance is repugnant to the West, and the relation of each to its tax source in no way mitigates this repugnance.

We too believe the relation between the insurances and the assistances is one of primary and secondary importance. We must somehow better demonstrate a fundamental difference between them to the American people. Even if all our proposed amendments were enacted this year, I would like to recommend a clear statement that the Federal grants to States for public assistance are temporary only, pending the maturity of the insurances, and subject to revision as straight supplementation when the entire working population is fully covered by the insurances. Failure to do this will, in my judgment, mean that in at least the West the States will continue their assistance programs, utilizing any additional Federal money to maintain their assistance payments at levels higher than even our liberalized insurances. The West's conception of adequacy, like the West's conception of minimum wages and a standard of living, is higher than that of the rest of the country.

We have sometimes confused public opinion by our subordinate requirements and interpretations. Our restrictions on the earning power of our beneficiaries and assistance recipients have struck the West as penurious, legalistic, and unsound. Our attempts to rationalize public assistance as a right equal to that claimed for the insurances have served only to blur the difference between them in the public mind. Our search for rationalizing the "service" features of public assistance as something different from the normal, friendly courtesies also available in our OASI offices, has not helped understanding. Indeed, it has often served to keep alive crude and unjust resentment against social work.

We understand what was intended by the shift of concept in old-age insurance from equity to adequacy; the people do not. Nor do they get a sense of adequacy from the level of payments. We understand the reason for inserting the income-

and-resources concept in public assistance; the people out West do not. Not only the legislatures regard the rulings of our Board, which they feel themselves as yet too weak to defy, as Shylockian. The people, by and large, want not only liberal treatment, but actual generosity in their insurance benefits and assistance payments—yes, for the children, too. They would like to have Congress accept their concept of generosity rather than yield to what they stubbornly believe is our Board's rather than congressional, dictates of restriction on the dwindling earning power and ownership rights of those in need.

Public opinion on the west coast instinctively resents the idea of practically total idleness as a price for receiving retirement annuities of assistance payments. The doctors are just beginning to study geriatrics, but the people have known for years that it's good for folks to be busy. Out West they don't want to reduce payment or benefits, penny-wise. Our restrictions in both the insurances and assistances are unacceptable as any part of "social security." They would set limits too, but their limits would be far higher, in money, than ours.

Perhaps we all understand the sudden insertion of survivors insurance—the first instance in which, numerically insurance exceeds assistance. The people don't yet understand it. We haven't yet worked out any way of getting understanding of how come. If old-age insurance was set up on an economic base, with actuarial relationships between income and benefits, the commonsense American is still puzzled over the sudden provision of survivors insurance at no extra cost to him. If we can make such radical extensions of protection without additional taxation, what is the present and future relation of costs to benefits? The freezing of the present tax rate and congressional cross currents do not help them out of their confusion and skepticism.

The general field of unemployment is absorbing the west coast's capacity for worry, perhaps more than that of the rest of the country. We were not an industrialized society before the war. We face the twin problems of setting up new industries and caring somehow for our new in-migrants who were poured in from the outside for war work. Our concern is not over the adequacy of unemployment compensation funds, but over the limitations of unemployment compensation coverage and eligibility that may require us to make provision for vast unemployment relief. California has \$700 million in the funds now. Here again, I believe the people suspect that we are not clear in our balancing of economic rights versus social need. West coast public opinion yearns for clarification in national thinking as reflected in national legislation on this matter, and is not satisfied that our present unemployment compensation serves the purpose, with respect to adequacy, coverage, liberality in administration, or even theory.

We must remember that public opinion in reflecting on the social-security program is not limited to the confines of the Social Security Act. In all the insurances and all the assistances, people's thinking is guided by laws and proposals, by congressional discussions, other laws and their administration, dealings with other segments of the population, such as the GI allowance and other veterans' benefits, vocational rehabilitation, and the Children's Bureau programs, to mention but a few.

Differences in the cash available to people from Federal appropriations are so widespread as to confuse public understanding of what the Federal Government deems a measure of need. We know perhaps that underlying reasons for these variations. The people appreciate the need for some discrimination among the several groups affected. Nevertheless, the net result of these series of benefits, grants, and allowances is confusing to acceptance of our general thesis and serves to influence public opinion in the West, at least, toward regarding our thesis and all Federal thinking as confusion.

The active interest of the west coast in health insurance runs as far back officially as 1915. The same interest is reflected in the pioneer developments in providing medical care for the recipients of relief and assistance, notably in Oregon and Washington. In Washington, appropriations from the State treasury for comprehensive medical care are provided on a more generous basis per individual covered than that provided by the 3-percent payroll tax now being fought over in the California health insurance bills and proposed for national legislation. With no Federal aid, Washington State itself is providing \$44 a year per person for complete medical care for the 90,000 people on its assistance roll. The 3-percent income tax on the conservatively estimated wage in California, 194x, will provide a medical care revenue of \$52 for 2 people. Public opinion out West wants prepaid medical care and has wanted it for years. They are providing it on the assistance basis—generously.

The remaining battleground is not only over the necessity for providing universal protection through health insurance, but whether such insurance, on a compulsory basis, will be better than public assistance medical care plus voluntary insurance for the self-supporting. By all the known ways of gaging public opinion, people in California want compulsory health insurance; it remains to be seen whether the insurance proposals can win by legislation or an initiative. My fear is that the growing practice of supporting medical care for the needy may retard the insistence on compulsory insurance. Once again there is confusion between needs and rights in the provisions for protection against a known and dreaded hazard of life. I recommend a clear assertion of our conviction that compulsory insurance is basic and assistance grants for medical care only supplementary, to encourage public opinion on the west coast to demand firmly what clearly the majority of the people deeply prefer.

Public opinion on the west coast over all the years of its own endeavor to find the way to secure the simplest guaranteed protection against the hazards of life, has been fumbling for concrete expression of goals that are set forth in the Beveridge report, in statements of our own Board, and of other national leaders, notably President Roosevelt. The west coast is for their complete accomplishment. Pending such completion, the west coast is unhappy over the limitations of our insurances and over our equal championing, in performance, at least, of a public assistance program that is more comprehensive in coverage and far more generous in cash. Despite their grouching, the people out my way share with President Roosevelt the belief that "the good should not be cast aside because the better is unattainable." True to their own history, however, they are firmly convinced that the better must be attained, and quickly. Expansion of our act, universality of coverage, simplification of eligibility, and a more direct economic relation of basic benefits to wages and standards of living, and of supplementary assistances to human dignity, are demands of west coast public opinion. Rather than be shocked by their crude native expression, we should welcome them as stimulants to further clarification of our thinking and as support in our efforts toward enactment of our program.

Discussion of public opinion on assistance and insurance

Mr. Kasius remarked that, as a native westerner, he was interested in definitions of where the West begins; perhaps one should be added—"where the people are confused." When Mr. McCarthy asked if there is a special tendency toward old-age dependency in the West, Mr. Neustadt replied no; it is highest in Maine. Mr. McCarthy then asserted that assistance ought to be higher than insurance benefits. The presupposition is that the insurance benefits are supplementary to the individual's private accumulations, when assistance is designed to meet the need of those who haven't been successful in private accumulation. Mr. Neustadt suggested looking at the percentages of persons eligible for old-age assistance, which he thinks higher in the East. He said he was not trying to whittle down public assistance payments, but wanted old-age and survivors insurance to be as high. Under the present formula, insurance benefits are not as adequate for the needs of all old people as assistance is to the specially needy. Mr. McCarthy agreed.

Mr. McCarthy then asked if stigma is still attached to assistance. Mr. Neustadt expressed the belief that people receiving assistance feel less stigma than they anticipated, but the neighbors still consider it a stigma. Aid to children is coming along pretty well. Miss Hoey thought that neighbors say they deserve assistance, but what is the attitude toward the family that has been deserted, for example? Mr. Kasius commented that for the children assistance is still relief, but for the old people, it is a pension.

Mr. McCarthy asked if the popular impression is correct that the west coast is moving in the direction of Townsendism and that assistance payments are higher on the average, because interpretations of eligibility are more liberal and stigma is less. Mr. Neustadt replied that there is a growing fear of the future among those who worry about finances in the West. Public opinion demands more and more. In every legislative session California has almost as many bills as all the rest of the country combined—not just the Townsend movement but support by all groups of a supersimple adequate pension plan.

Mr. Beasley referred to the old-age and survivors insurance study showing that 85 percent of the beneficiaries in Philadelphia and St. Louis had income other than benefits and asked if the proportion on the west coast would be lower. Mr. Neustadt did not know. Mr. Kasius said that in that same study there were more in Los Angeles who had assistance supplementa-

tion because of more liberal eligibility standards. Mr. Bigge asserted it is obvious that public assistance is much more adequate for those most in need, than old-age insurance. If public assistance were given to everybody, regardless of resources, it would be more adequate than old-age and survivors insurance, which is given to every eligible person, regardless of resources. But the assumption is that the people who get old-age and survivors insurance have other resources, on the average, say, \$20 a month, and many have a home. If we add \$25 or \$30 a month in old-age insurance, for 90 percent of those people insurance will be more adequate than the assistance that they could get. Mr. Neustadt declared that neither the CIO or even the Chamber of Commerce would accept that view; he was trying to interpret. When Mr. Mitchell suggested that the facts stood without interpretation, Mr. Neustadt said that all groups had made lots of studies; western legislators don't want this income-and-resources basis. Mr. Bigge then declared that public assistance obviously is much more adequate for the people who need it most, than old-age insurance for the same people, because old-age insurance is intended to be adequate for 90 or 95 percent of the cases and is adequate in 90 percent of the cases because the beneficiaries have other resources. There is no need for pushing it to a higher level. Public assistance doesn't go to those people at all. It goes to the people most in need, who therefore must receive more than is given under old-age and survivors insurance.

Mr. Neustadt maintained that the west coast would say they want neither of those things. They will take insurance; the only difference is that they insist on a gross-income tax. They are willing to pay for it individually, with everybody else. Mr. Bigge remarked that, in his opinion, the west coast wants a pension and wants to pay for it through a general tax. They don't want either insurance or assistance. It is not that assistance is more adequate than insurance. They don't want either.

Developing his point, Mr. Neustadt said they will take insurance, if the amounts are raised. It is a fact that in 1879 California refused to have pensions based on an annual appropriation. That has been California's belief since 1879. Mr. Powell said he would like the group to hold this question in mind until the discussion of informational service programs. For several years, region XII held it had little need for an informational representative. Mr. Neustadt has said that his present report is objective, and does not necessarily represent his own conclusions. Could our efforts, facts, and interpretation remedy conclusions that seem fallacious, if we assume there is a situation that shouldn't exist? We might consider whether people in this country would be willing or able, despite the feeling of the people in California, to finance the sort of thing that apparently the people on the west coast want. The proposed contribution rates would certainly build up no reserve that would permit the benefits that people on the west coast seem to want. Mr. Neustadt replied that he had discussed this point with several friends or acquaintances, good bankers; they question very sharply the economic validity of a gross-income tax, but none has questioned the adequacy of the return. There would be plenty of money. But he himself was not expounding the Townsend movement. Mr. McCarthy then asked if public opinion would be satisfied with a moderate increase in the average benefits. Mr. Neustadt thought not, though some would.

Federal-State responsibility for administration of public assistance (Mr. McCarthy)

At a meeting of Mr. de Schweinitz's institute last week, Mr. Altmeyer said we know that need is not being met by assistance, citing evidence that one-third of all the recipients of assistance receive less than the visitors had determined necessary for them. We might go further and talk about the people who are in need but not on assistance. It is true in Illinois, and probably in many places throughout the country, that people who are in need and are eligible refrain from applying for all kinds of reasons. In Illinois it has been particularly noticeable that people have been kept from the rolls by the State's policy on the responsibility of relatives. Illinois did succeed in removing many people from the rolls—some 25,000 in the past 18 months—and that has had a double-barreled effect in cutting down intake, because the restrictive policy on the responsibility of relatives was generally publicized.

He had outlined the things which interfere with our efforts to meet need, financial restrictions, legal restrictions, and administrative factors. As Miss Hoey and Mr. Neustadt talked, he checked off the items and only two items

were left. He was willing to stand on the positions which Miss Hoey suggested as logical for us on all these items. Miss Hoey inferred that we could be somewhat optimistic over liberal tendencies and trends in legislation but are there not opposite trends, particularly in the field of working out satisfactory, harmonious Federal-State relationships. A number of happenings in the legislatures seem to indicate that our relations are not as harmonious as they were a few years ago—that if there is a trend, it is the other way. One is the outbreak of investigating committees established by legislatures, committees which sometimes incorporate in their charters the responsibility of investigating the Social Security Board, as in Massachusetts and Indiana and perhaps in other places.

One of the two points not covered in discussion so far, is the question of personnel. There is a real problem in State developments toward breaking down our merit-system standards. For example, 2 weeks ago Illinois passed a bill which prohibits the civil service commission from setting any minimum educational requirements for admission to an examination or appointment to any position. There has been a progressive lessening of standards generally in assistance programs, for getting away from the idea of professionalism in the merit-system field. We have a greater responsibility for encouraging in-service training programs and other educational improvement to get better service from people who come to us with less preparation, as they will. We are also faced constantly with the problem of caseloads. We often hear people talk of caseloads of 500, and some of our counties have caseloads that high, although usually they run around 250. Meeting need depends on good case work and that cannot be done if the caseloads are too heavy. Miss Goodwin said that a survey shows that some States have not had a single fair hearing in a year and that most States have very few. In making speeches, we point to fair hearings as a distinctive mark, a new and revolutionary concept now in effect in all States; but as a practical matter, is it true? In Illinois, for some 7 months, we had to urge the State agency to give every rejected applicant a simple pamphlet indicating what his rights are under fair-hearing procedures. The State feared that it would invite the influx of a great many appeals. I don't know whether a fair hearing is more honored in the breach than in the observance.

Experience in region VI in Federal-State relationships shows need to study ways of improving them and perhaps some changes in the policies which have governed our relations with the States. Between sessions we carry out our contacts with the State agency on a consultant basis, with a routine set of recurring problems. We relate the results of our administrative review to general Federal policy and standards and State policy and standards in continuous discussion, and over a time we build up an easy, harmonious, pleasant, and mutually respected relationship between regional staff and State agency members.

The crisis comes, however, when legislative sessions begin. Many bills are introduced, and they often raise questions of conformity or of bad administrative policy. Then the paramount question is how to get the legislature to know what to do about those bills, and often the State agency is not equipped to make proper presentations to the legislature. Sometimes they are just afraid. Political considerations are involved, and even though we may analyze and comment on the bills, our statements very often may not get to the legislature or are not effectively presented. At some point the legislative committee holds hearings and, as a last desperate measure, arrangements are made to invite members of the regional staff. By that time the situation is very tense. The bills have gone through a first reading or are still in committee. The question is: "How far can we go and still not lose Federal funds?" Our tremendous worry is that the State may legislate itself out of conformity. This is not an agreeable situation in which to try to carry on negotiations or try to give advice, or consider anything other than what might be conformity questions. So we get the charge of Federal domination, because most of our testimony in such hearings is on conformity, and we have no opportunity to do the kind of calm, deliberative, consultative job we have done all the way through. The laws are terribly important. They will influence administration for the next 2 years. We should develop some way of communicating our views to the legislature on a calmer and more orderly basis.

After some years of this kind of experience, my suggestion is that we encourage the establishment of interim committees, a joint committee made up of some representation from both State houses. This would not be an investigating or witch-hunting committee, but a committee which could hold several meetings during the interim between sessions, at which the State agency would have a chance to present current administrative problems, especially with regard to their

bearing on present legislation, and future legislation—what the effects of present legislation are, and what future legislation might develop. At the same time, it might be arranged that regional staff members could accompany the State officers in meeting with this interim committee. The governor's legislative representative—usually one man is thus designated—should sit with the committees. One advantage of this arrangement is that it would give the committee an opportunity to know more about the regional staff members than is possible in the turmoil of a legislative session. We also could reach the interim committees at a time when the legislators are not disposed to use every statement as a cue to some kind of sounding off to the newspapers. During the States sessions people make statements on the floor of the house or the senate and in newspapers which have much to do with forming public opinion. Public resentment of public assistance activities does not come from people's experience with public assistance administration; it comes from the publicity given to these kinds of statements. If an interim committee meets four times a year, no publicity is attached to it. Members of the legislature on that committee can be convinced that we are not two-horned devils—that we are not anything but decent human beings who are occupying certain jobs and are trying to carry out mutual objectives, that we are not Federal dominators. When the legislative session opens, such a committee might be prepared with a program and, better, be prepared to interpret that program and to dissipate a lot of the nonsense about Federal domination.

One other suggestion for discussion: More frequent contact with governors. Early in the game we went directly to them; now we see them only when there is an emergency. Part of the responsibility of the regional director is contact with the governor, but in practice the governor is kept in reserve as a weapon when something very serious is up. I would like to go back to more frequent contacts with the governor. Though it might be interpreted by some State agencies as going over their heads, it could be explained on the ground of the governor's overall responsibility. The governor is entitled to the best information and advice he can get, and we can't always be sure that State agencies properly interpret us to him.

Discussion of Federal-State relations

Mr. Neustadt asked why casework, if public assistance is a right. His second question concerned elimination of educational requirements for examinations and appointment. Mr. McCarthy replied first to the second question. After negotiating with the sponsors of the Illinois bill and the legislative committee, we agreed that we wouldn't object too strenuously to elimination of educational qualifications to admission to examinations, but that the real flaw in the program was the words "or appointment," which meant that the civil service commission could not even give additional equipment that people brought to the examination. Mr. Neustadt asked if that language was in the Federal act? Mr. McCarthy said no; he thought that although the democratic principle that any person should be eligible to take an examination and take his chances on it is not objectionable, but a provision that would not take education into account in grading and ranking people for a register is a violation of the merit-system standards. The Illinois statute says that educational standards may not be established for admission to the examination, or appointment. When Mr. Lyle asked if it is a war-duration provision, Mr. McCarthy replied that it is permanent legislation. Miss Hoey remarked that on such a violation of the whole principle, we could raise a question whether the State has a merit system. Mr. McCarthy said that the regional office's presentation to the Governor indicated that if this interpretation should result, it would have to be taken into account in evaluating whether a merit system was in operation.

Miss Woods said that Ohio had the same language but took educational requirements into account in grading. Miss Hoey added that there are only five States without educational requirements for admission; these and all other States, however, take education into account in grading, according to our standards. Mr. Bigge asked if the question had ever been raised in Ohio. Not formally, Miss Woods replied. We worked with the agencies on it. They have their own standards for promotion, appointments, substituting experience. Mr. Bigge pointed out that experience seems to be that Illinois might interpret the law so as to take education into account in appointment, and Mr. McCarthy said they were hopeful of persuading the civil service commission to do so. Whether it would be challenged by an actual court case, he didn't know.

Returning to Mr. Neustadt's first question concerning the use of casework if assistance is a right, Mr. McCarthy said the answer depends on interpretation of "right." He quoted Mr. Altmeyer's remark that there are rights to both benefits

and assistance, but that both are conditional rights—one conditioned on wage history, and one on the determination of need and the amount of need. He thought there might not be much distinction between the two—just variations in conditions. He went on to say that casework was directly related to the amount of assistance a person might get, and what arrangements can be made to improve his way of life, his happiness. Good casework would involve such things as helping him find a decent place to live—if he needed that help—and in proving his eligibility to start out with. More than that, it could go to the question of the availability of resources and what arrangements could be made within a family group for an individual.

When Mr. Neustadt asked if, outside the children's field, any States are doing or can do casework, Miss Hoey replied that the question depends on a new interpretation of casework. Some people think casework is what happens when a sadistic person wants to go in to prevent a person from getting assistance. Many States have not given all the help they should even in establishing eligibility. One State had a long waiting list. They asked one of our staff what to do about it, and she suggested it might aid if some of the people could help to establish their own eligibility, could get certain documents. A few weeks later she met the worker in the agency, who said jubilantly, "We have done away with the whole waiting list; we told them to go away and prove eligibility, and they haven't come back." An increasingly large group of people who need institutional care or medical care of various kinds, for example, are not getting it. Arrangement for that is a part of casework—certainly so in relation to the blind—as is arrangement for other services that may be needed in addition to assistance. The amount of the assistance is not easy to determine—getting the agency to establish realistically what the requirements are and then meeting them. She saw no conflict between the right to assistance and casework.

Miss Engle asked if the present caseload of 400 or what not made casework feasible; it was hardly possible to give any help in establishing eligibility. Mr. McCarthy reported that Indiana introduced a bill which said that assistance would be cut off for any case not reinvestigated within 12 months, penalizing the recipient for the failure of the agency. Miss Hoey said that a disastrous situation has arisen in West Virginia. They are punishing the administration, by cutting the administrative costs to 8 percent, then to 6 percent. It means that an office may be open only half a day a week, with no telephones. People can't get to it to apply or to indicate their actual needs. Miss Woods spoke of caseloads of 250 or 300 and referred to Mr. McCarthy's mention of 400. Texas has 500, Miss Hoey added.

Mr. Kasius declared that in region II-III the problem isn't always financial; sometimes it is a problem of not knowing just what is an acceptable standard. We should have more knowledge of what goes into an operation. We will get confused if we call it casework. There is a certain quality that goes into it. If you want to call that casework, all right, but it still leaves the problem of what is the content of this job. We think we are working it out in old age and survivors insurance. The two programs aren't essentially different.

Miss Engle, agreeing it is a soluble problem in old age and survivors insurance, thought it a question of definitions. In a city which rejects social casework as a part of a public program for people in need, leading businessmen to whom we go about community war services, for example, take us over the coals because they can't get 5 or 6 social workers to keep people in their plants. Nothing is construed in so extraordinary a fashion as casework—all the way from sadistic prosecution of the recipient, to mollycoddling the drunks. Nowhere do you get the interpretation that family counseling is something that business does as a matter of good business, to maintain people on the job, as Federal agencies are doing to keep staff from departing in great haste from Washington and yet when we get into it too, our confusion is worse. Mr. Kasius reported that one Governor says the Social Security Board insists on their mollycoddling. Mr. Wrenn replied that's our job; it isn't a philosophic approach. After the war, it may be easier. Harder, said Mr. McCarthy.

Mr. Kasius added that the problem is related to availability of personnel, but that ought not to keep us from trying to define more clearly and adequately the nature of the job of administering assistance. If that were done a little more completely, we wouldn't have the kind of questions Mr. Neustadt asked. Mr. Neustadt said he thought people were on his side. He was not scoffing at social workers, but was merely saying that we confuse the public by talking about the right to public assistance, and trying to make it as nearly automatic as we can, and at the same time caring for the happiness of the old people and the children.

The Federal Government is confused, so far as the happiness of the children is concerned. Congress set up an entirely separate agency for children, and that is not the business of the Social Security Board.

Mr. McCarthy said he didn't know how to define happiness. Perhaps it referred to the place where you live. In his State some nursing homes set up for private profit have been so horrible in cleanliness, conveniences, food, medical care, and everything else, as almost to call for prosecution. Mr. Neustadt remarked that would be defying the order of the Social Security Board and restricting the grant. Twelve years ago and twenty years ago, the general thesis was that the function of the Federal Government was to help end poverty by giving people money. Isn't that the thesis of the Social Security Act?

Miss Hoey said she didn't use the term "casework" and wished we would talk about straight economy. In the District of Columbia, for example, the death rate from tuberculosis among Negroes is six times that among white persons. Many of those families are on the assistance rolls, yet even if payments were higher you couldn't get adequate housing for Negroes. We do nothing about that. Mr. Neustadt said he too resented restrictions of the Hatch Act but thinks we are allowed to go very far about housing. Seeing below the surface in terms of the problem involved is necessary, Miss Hoey added. She continued, we waste a lot of money in assistance now because we don't have adequate administration. We don't have the facts. If you call that casework, O. K. Let's stop talking about casework. Let's know what we are saying. We want to help people get their assistance. If we did that, we would be doing a good job.

Mr. Wrenn asked if Miss Hoey would advocate an intelligent informational program. She replied yes, we have to help the States to get the facts on which a decent program can be presented. Miss Engle asked to what extent we encourage or promote actual family service and service to children's cases, with the funds made available through Federal, State, and local funds. Should we let them keep their suitable home provisions, Miss Hoey asked? Is that a sound position?

Mr. Beasley commented that we might well have a more realistic curriculum in schools of social work, a better balance between casework and some of the related areas—with more substantial emphasis on the insurances and the way in which social work and its specialties relate to a total program of the social services. Mr. McCarthy remarked that the people they will get in his region will have veterans' status, not educational background. Miss Engle said that was not true in all States. Mr. Beasley suggested that a way of dealing with the situation is to pump education into supervision with a corps of balanced competence at the top—not the best, but something.

Miss Hoey pointed out that the curriculum of the social-work schools has been greatly expanded to include the social insurances, housing, and a good many other things not previously included. The Bureau has had some joint meetings on the way in which the undergraduate work would be coordinated, and there is unanimous agreement about the need for greater emphasis on the social side, particularly on economics, as a background for professional training. Real progress is being made. The Bureau is submitting material that goes to the States to the schools of social work, and a committee of the schools in working with it in preparing realistic teaching materials, from material like the administrative review, disguised, of course, to get better training in terms of their fieldwork.

When Mr. Kasius asked for discussion of our relationship with the governors and the legislatures, Mr. Harper declared that the suggestion of an interim committee and of more frequent contacts with the governor prior to legislative sessions is very constructive. We might want to have a threefold approach to the governor, that is, have the particular representative involved, whether it be public assistance or employment security, and the head of that State agency, go to the governor, sit down and explore the whole program. Mr. McCarthy asserted that would be true in some cases, but sometimes there are differences of opinion with the State administrator, or he might tend to resent the presentation of Federal views to the governor. It is like saying to some Congressmen, "Do you know what the situation is in your State?" He declared he would favor it on some occasions, certainly. We have generally let it be known that we are not too favorable to the creation of investigating committees, because our general experience is that they never have done a real job of investigation. They usually are politically motivated and out to get somebody. But this would be different. He thought of it as a matter of policy of going to the governor, and encouraging him to speak to the legislative leadership.

Miss Engle asked if it were not a question of Federal leadership in Federal-State relationships. Last year the office of region IV wrote to the lay boards of State agencies, sending them a copy of the Board's Annual Report, and saying that they would find in it many things of interest to the program with which they were concerned, as well as in the general field of which that was a part, and that the regional representative and director would be glad of a chance to discuss it with them. This invitation resulted in an all-day meeting in each State. Discussion of that State's particular headaches, problems, administrative difficulties, or financial difficulties was ruled out; the material proposed dealt with the overall economic and social background of their problem, and suggested that they discuss matters that related to the department with the governor. For several, it was the first urge to discuss their total overall State problem with the governor, as an agency approach through its lay leadership. The Federal-State relationship would be much enhanced if we made better use of the many thousands of people on lay boards and on overall commissions dealing with both unemployment compensation and public assistance. When Mr. Kasius asked what the effect was of the two letters sent by the Board to the governors, Miss Engle replied that they were very well received, better than she had anticipated. From the employment security letter, they rather anticipated a change in employment, which didn't materialize in their States; but it was very well received.

Mr. Neustadt said that experience in region XII seemed to show that the best way is to be able to discuss with the Governor not only social security but also general State problems in which he is interested. Mr. Powell asked if we might do more harm than good by going to the Governor as a regular proposition without the State people. If regional offices have such a relationship with the State agency that they are absolutely assured that you are not trying to go around them or put something over on them or inculcate a point of view contrary to their own, probably there would be little danger. But if you start going to the Governor, the State man doesn't know what you are going for. Isn't it likely that the State agency people will be fearful of that continuing contact and think, "If there wasn't anything to hide, why didn't I go along? Or, is this Federal agency here trying to get the Governor to support something I am 'plumb agin'?"

Mr. McCarthy asserted that some occasions would warrant going to the Governor even when that suspicion existed. Perhaps the State agency is not well led. Sometimes it is led by a man not genuinely interested in improving the program, or even if he is interested, he may give too much weight to a particular interest in the community. Employer groups, chambers of commerce, and manufacturers' associations are much more vocal than labor unions, and certainly more so than unorganized groups. As a matter of convenience, the State administrator may adopt their point of view, and be inordinately influenced by the most vocal section of the community. If we are agreed on the desirability of a particular objective and have a sense of responsibility for Federal leadership in this field, on some occasions we would have to go to the Governor to let him know the picture, because he would not know it any other way. Mr. Powell said he agreed there would be such occasions, but he had the impression Mr. McCarthy has suggested establishing a regular relationship between the regional offices and the Governor as a routine, without bringing the State people in. Mr. McCarthy replied that he accepted the amendment to bring the State people in on some occasions, but that making regular contact with the Governor is a foundation for emergency problems when it is necessary to go to him.

Mr. Powell suggested that it might be a matter of balance. There might be some occasions when it would be desirable to go without the State people, and some when the State people should be in. Mr. Harper, saying that he thought Governors would welcome a reversal of the trend, pointed out that it is a great mistake not to have more frequent contact with them. In general, they seem sympathetic toward our points of view but not well enough prepared to fight for them. We ought to have our legislative proposals by November at latest, October preferably, or July, so we could begin with the agencies, especially for unemployment compensation. Fairly frequent visits to keep our contacts and manifest interest in the over-all problems of the State are one of the most important moves we could make. At least Region XI, has failed to make such a move.

Miss Hoey then asked if Miss Goodwin could answer questions regional directors had asked before the meeting. Miss Goodwin referring to Miss Hoey's mention of gains through the war programs, added that in aid to enemy aliens recent events have given a great setback. That program is not as popular with

the counties or States as the civilian war assistance or the regular programs. They have often taken it on with uncertainty whether they should do it at all. Much earlier transfer of funds was expected. No one anticipated so much legislative difficulty or delay. The Budget Bureau willingly accepted the proposal of transfer of funds from the War Relocation Authority, which would have made it possible to adjust that program as necessary. Congress not only did not approve it but also reduced the amount substantially. We do not know yet about next year's appropriation and therefore must resume our plan with the State, which is difficult in any case, with all these uncertainties. Our regional representatives will need all the help regional directors can give in keeping the program on an even keel during this difficult period. Civilian war assistance, which has been a small and quiet program for several years, suddenly faces a very large program and expenditures that are difficult to estimate. In both of these programs the unknowns are far greater than the knowns. We still do not know how to anticipate what controls we may have to establish, because we can't go back every few days and get more money and can't support a request without some known factors.

One question was about the possibility of some reorganization of the administrative review. The Bureau has had this project in the forefront for about 2 years. Many things have been going forward in assembling, analyzing, bringing the material up to date. Some of those revisions are being completed. A current Bureau project is to repeat our thinking, the steps we took in the initial planning, to see whether we believe the purposes, the scope, the methods, are still desirable. It will take some months to cover all the facets.

Mr. Powell then asked for opinions about the meeting—suggestions on revision in the agenda or on methods of handling. Mr. Wrenn said discussion had been going well. Mr. Kasius asked if discussions could be spread through a session, rather than concentrated in one period. Mr. McCarthy said that members of the institute agreed that debate of points as they came up was a real advantage. Mr. Powell agreed and proposed the change be tried for the next session; how about the agenda as a whole? Mr. Lyle thought it was what was wanted and Mr. Neustadt recommended that the committee be made permanent. Mr. Lyle and others expressed a hope the summary of the meetings could be sent out quickly, even if in rough form. Mr. McCarthy said that institute experience warranted the hope that discussion would increase as the meetings went on. Mr. Powell said he thought that it would be appropriate for the audience to chip in its two-bits' worth in the discussion and asked if there were other criticism of Mr. Lund's work. Mr. Neustadt said none, so far.

Mr. Hardy, as chairman, opened the fourth session by introducing Mr. Pogge.

Current developments and trends in old-age and survivors insurance (Mr. Pogge)

I am starting off with a few significant facts of mutual interest on the operation of our present program. The personnel trend is certainly significant. These charts are reproductions of ones we used at the recent hearings on our 1946 budget. Whether or not they were put to good use there, it is too early to tell. At least the congressional committee didn't indicate to us any basis for making a cut. However, in our hearings on deficiency appropriations for 1945 they did not indicate any basis for a cut, but cut us from a request for \$450,000 to \$225,000.

From time to time we take a look at administrative expenses for the program as a whole, not only in the Bureau of Old-Age and Survivors Insurance but also expenses in other parts of the Board, the Federal Security Agency, the Bureau of Internal Revenue, and the Post Office Department, since we now pay for the use of the mail. In 1941 total administrative charges were 3.89 percent of tax collections; in 1945, they will be 2.37 percent. We predict that in 1946 they will drop to about 2 percent providing the tax rate goes up to 2.50 percent on January 1. If not, the percentage figure would remain about the same as for 1945, perhaps slightly more than 2.37 percent because, while our contributions may have reached a peak, our administrative expenses will increase with the increase in claims load, which has no relation to contributions received.

Perhaps comparison with contributions is unfair to the extent that contributions are high and we haven't yet a mature program. We often look at administrative costs of other agencies in relation to outgo rather than income. So we segregated the part of our total Bureau expenses that could be reasonably related to payment of claims. Obviously, much of the expense of wage records shouldn't be charged to the claims paid in a particular year. We put in a proportionate share of these expenses and of expenses in field offices, the central office, accounting operations, and elsewhere in the Bureau, resolving any doubts

by putting the charge against claims so as not to understate the amount. For every dollar we paid out in claims in 1941, we spent 11.6 cents in claims expenses; the cost dropped to 4.7 cents in 1945 and is estimated at 4.6 cents in 1946. It should go down still further as claim volume increases and benefit payments continue. For initial payment of claims and maintenance of the benefit rolls, while the absolute costs are growing, percapita costs are going down. We estimate it costs about \$1.75 a year to maintain a beneficiary on the rolls, including changes of address, monthly recertification, suspension and reinstatement—all the things that make it necessary for us to do some work in field and area offices, particularly.

A few years ago about 10,000 people were employed in the Bureau of Old-Age and Survivors Insurance. Though the workload in every department has increased, we have been able to reduce the total number of personnel. That hasn't all been due to streamlining and superefficient management, because increase in the workweek helped some. But we have made some substantial savings through better use of our full facilities. We reached a low point of 8,207 people on September 30, 1944, and were really understaffed. We were in the predicament of keeping under Budget Bureau ceilings and appropriations. Congress cut our last spring's appropriation by \$1.25 million. We know it would be hard going if we realized our claims estimates but resolved not to ask for more money until we found out more about the size of the actual workload and how far we could go in streamlining. In about December we realized two things: That we had nearly reached the limit to which we could go in streamlining and still give reasonably adequate service; and that our estimates would be very substantially exceeded. We asked for a deficiency appropriation. That December request hasn't yet been approved by Congress. The House has approved a deficiency appropriation of \$225,000 for us and we may be in a position to get a little more money by collecting some reimbursable accounts from other agencies and from transfers from other appropriations.

When the Bureau of the Budget imposes a ceiling of 8,500 jobs, it is hard to recruit up to that ceiling. That ceiling is spread over the central office and regional and field offices. We were all afraid of exceeding those ceilings but never even reached them. Wondering about ceilings for the next quarter, we never got up to them, though we needed personnel.

In December we told regional representatives to forget about ceilings for the moment, to see how many people could be recruited. They really surprised us. We came up from 3,710 people in the field in September 30, 1944, to 4,172 as of March 31, 1945. We are sending out another letter to regional representatives again taking the lid off, though we don't know how much money we are going to have to spend next year. Even though we recruit more people than we can carry for the full fiscal year 1946, we won't be faced with the necessity of laying people off at the end of this fiscal year; we shall have a year's time to do one of two things—either reduce our staff by not filling vacancies arising in normal turnover or decide whether we need to go back for a deficiency appropriation.

We put the Budget Bureau and Congress on notice in our recent presentations that, because of the abnormal swing upward in the claims load, the money requested for 1946 would not be enough. When it is uncertain how much money there is in the bank, it is difficult not only for you in the regional and field offices but for us in the central office to plan how much staff you can have, what their classifications will be, and where you will use them.

The trend in claims is more important than the trends in account numbers which aren't as significant in terms of money (chart). Nearly every month we are setting new highs. Our most recent high in weekly receipts in field offices exceeded 14,000 claims—claims, not beneficiaries.

Recomputation of benefits is insignificant in terms of claims volume but rather significant in the way of a trend, at least, in the philosophy of administration and interpretation of the law. The receipts for 9 weeks—about 6,000 cases indicate it should not be such a sizable job. We would hope that in the long run recomputations will more or less wash out. Some of the obstacles to the most intelligent way of handling depend on legislation to make recomputation more automatic and more effective.

As claims receipts increase, there is an accumulative effect on the benefit rolls. As of the end of March, 1,194,000 benefits were in force. The difference between the benefits in force and in current-payment status represents the number of benefits in suspension, primarily because of the work clause—now about 134,000—distributed among primary beneficiaries, their wives who are automatically suspended, widows with current benefits, and some children. Mr. Neustadt asked if the figures for current-payment status could be given by type

of beneficiary. Mr. Pogge replied that about 60 percent are aged. About 405,000 are primary beneficiaries, 143,000 are wives, and 75,000 are aged widows. The rest are 98,000 widows with children and about 325,000 children. The number of dependent parents (5,000) has not been large since we have been in business; we spent an inordinate amount of time in putting those 5,000 people on the rolls and caused a lot of heartaches in the disallowance of many claims because of the strict provisions of the act.

In considering expansion of the system, suppose we first take up some of the major technical amendments. We have listed a proposal that a lump-sum death payment be made whether or not there are survivors entitled to monthly survivors' benefits. This will do two things: (1) Remove some anomalies resulting from what we call "naked entitlement." A boy is 17 years and 11 months; the very fact he is entitled to benefit even though he isn't eligible for more than 1 month precludes paying a lump sum. (2) Make the monthly benefit much more effective by paying the lump sum as well. Many widows have to dip into the monthly benefits payable to herself and her children to meet some of the obligations of the last illness and death. The benefit payment would be more effective if a lump-sum payment helped to pay for those expenses. We also suggest revising the lump-sum provision to making it more meaningful from the standpoint of social insurance and simpler in administration by making payments only to a widow or widower who was living with the wage earner or to the person who pays burial expenses. There is a good reason for insisting on "living with." Today we have to pay the spouse who deserted the wage earner 5, 10, or 15 years ago and who may not even show up for the funeral. We must exhaust our efforts to locate this individual to see if he is still living and then deprive the children, or others who may have paid the burial expenses, of the lump sum. Miss Woods asked if children eligible for monthly benefits would receive the lump-sum payment. Mr. Pogge replied that they don't today. We would propose that if there was no widow, the children would not receive the lump sum unless they had paid the burial expenses. We would assume that a spouse who was living with the deceased worker was the one who paid for the burial. For children, we can't very well make that assumption.

For the work clause, Mr. Pogge continued, we would recommend that the amount of earnings permitted before benefits are suspended be raised from \$14.99 to \$30 to allow more supplementation of wages by part-time earnings. We need to decrease the severity of the penalty provisions, which the field offices find very distasteful in application. In essence we would apply 1 month's additional benefit deduction for the first violation of the provision in the series of events that occasion this suspension. Further violations of the provisions would result in the present 2-month suspension for each month of violation. Without changing the law, we have in process a substantially more liberal interpretation with respect to determination of the beneficiary's knowledge of requirements, impressing on the field offices that the responsibility for making that determination is in their hands. We are setting up factors to take into consideration in determining whether the individual has knowledge, because some cases come to area offices with a simple plea for clemency, rather than a statement of fact. We told you earlier about our recommendations on eliminating the school-attendance provision.

Mr. Neustadt asked why \$30 was picked for the work clause. He wished to know the principle. Was it half the minimum wage? Mr. Murray remarked that \$30 is a convenient figure, easy to understand. We made a very exhaustive investigation of what an offset of earnings against benefit would mean in administration. It would be very costly to administer and difficult for claimants to understand. Probably the results would be about the same with the \$30 clause under present coverage. Since a monthly amount would not be best suited to self-employed persons and farmers, we should probably keep the work clause in a rather fluid form.

Some anomalies have arisen, Mr. Pogge continued, in establishing the dependency of children, especially when the mother is the breadwinner. We propose that a child may be considered dependent on a relative (mother, stepmother, stepfather, foster parent) who actually contributes a major part of the support, even though the child's father may be alive. If the father is living with the child, however, and is not disabled, we would assume that he was providing the major part of the child's support. If the father is disabled, it will be assumed that the child receives major support from one of the relatives enumerated above. Under present provisions, if it takes \$50 a month to support the child—\$35 from the mother and \$15 from the father—and the mother dies, we cannot

find the child dependent on the mother; if the father dies the child is held dependent on the father. Mr. Harper asked about the significance of the disability clause. Mr. Pogge explained that if the father had been living with the mother and child and had been disabled for a reasonable period before the mother's death, child's benefits would be paid on the basis of an insured mother's wage record. Mr. Harper then asked why require that the father be disabled? Mr. Pogge countered with a question whether it is safe to assume that the mother is the main breadwinner if the father is living in the household. After discussing the matter thoroughly, the Board felt that we should assume dependency on the father if he is living in the household and not disabled. Any general assumption must be based on the average situation, on what is true for the majority of cases. The Board considers that the father has a legal obligation to support his child (an obligation which the courts recognize, Mr. Hardy interpolated). It would be administratively difficult, Mr. Pogge continued, to determine which parent contributed the chief support when both are breadwinners and are in the same household.

Miss Hoey wondered if this approach is consistent with the "right to insurance." She held that by simple direct methods, child's benefits could be paid on the deceased insured mother's wages, regardless of the amount she contributed toward the child's support. Mr. Pogge assured Miss Hoey that many of his staff held the same view. It might, however, cause serious anomalies; if, for example, the mother had acquired insured status by recent war work and the father was a high-salaried wage earner or professional man or a self-employed person with high income. Mr. Murray pointed out that if the father's unemployment is taken as a basis for determining dependency on the mother, the Board might pay child's benefits on the mother's wage record for 15 years or more—long after the father had returned to work. Mr. Lyle said that it seems unfair to deny the child benefits unless the father is disabled; the father might not have contributed anything for years. Mr. Pogge replied that the Board believed that it would be more reasonable to presume that the father had not contributed for a long time only if he had been living in a separate household. Child's benefits would be paid on the insured mother's wage record if the father had not been living with her and the mother had been furnishing the child's major support. Mr. Lyle asked if the "living with" father would have to be totally disabled. Mr. Pogge said they had tried to steer away from requiring permanent disability, but might have to go into the question of degree of disablement.

Mr. Powell then asked why it couldn't be assumed that the mother was working because money was needed to help support the family. If she died, the child would necessarily have been deprived of some measure of support. Mr. Pogge replied that with the present labor market and patriotic motives for taking war jobs, such an assumption might not be valid.

Mr. Pogge went on to the question of adoption. The present provision for terminating the child's benefits if he is adopted by any other person is a deterrent to adoption and works to the ultimate disadvantage of the child. Many people would manifest a greater interest in the child if they could go ahead with legal adoption. We recommend continuance of child's benefits if the child is adopted after the wage earner's death.

We would change the title of "Widow's Current Insurance Benefit" to "Mother's Insurance Benefits" and would pay such benefits to a divorced wife under certain conditions; today the divorced wife can never get a benefit, though her children may. If the theory of current insurance benefits is to enable the mother to stay home to care for the children, the divorced wife needs that money just as badly as any other mother. We would pay benefits even to the divorced wife of a deceased wage earner if she has not remarried, is the mother of the worker's child and the child is in her care, and if she was receiving substantial contributions from the wage earner at the time of his death.

We also would like to change the provision for maximum family benefits. The \$85 maximum isn't the one that hurts. The "twice the primary benefits" is the limitation that is most effective. We would eliminate that.

In defining "wife" and "widow," we recommend that the wife, to be eligible for benefit must have been married to wage earner for not less than 36 months or be the mother of his child. We are drawing up specifications to this effect providing something that would permit us to recognize the factor of common-law marriages. We would go a little bit further for the widow than the wife. We recommend that the Board recognize as a "widow" a woman who had been married to the wage earner for at least 12 months before his death (even if the applicable State law would not hold the marriage valid) or was the mother

of his child or understood and considered herself in good faith to be his wife, was living in the same household with him, and was supported by him. In the case of the wife's benefit, if a couple find their marriage isn't valid under a State law, they have an opportunity to show their intentions by getting married. The widow hasn't that opportunity.

Mr. Neustadt asked if it could be presumed that a widow who had been living in same household with the wage earner was being supported by him. Mr. Pogge replied that he hoped some ruling would permit this presumption in most such cases.

We would revise the definition of wages to include dismissal payments and back payments ordered by NLRB, Mr. Pogge continued. For parent's benefits, rather than try to determine whether a parent had been wholly dependent and supported by the wage earner, we would eliminate the determination of the financial status of the parent so far as receipts are concerned and find the parent dependent if 50 percent of the support has come from the wage earner. That step would probably liberalize and somewhat increase these benefits; we have the choice of eliminating the present provision altogether as being rather meaningless or liberalizing it. We have talked many times and are agreed about reducing the age for women to 60 years.

We have been giving considerable thought to the annual basis for insured status as distinguished from our present quarterly basis. If we extend coverage to the self-employed, we shall have to get annual, rather than quarterly, earnings. On the other hand, the annual basis would have some complications for currently insured status. Do we want 2 out of 4 years or 1 out of 2? A conceivable promise might be to have currently insured status on a quarterly basis and fully insured on an annual basis. An annual basis would simplify understanding on the part of the wage earners and the general public and would permit us to streamline our wage records and save money. In collaboration with the IBM Co. we have developed a machine that would permit us to do away with ledger sheets and keep the entire wage record on one punchcard. On the taxable wage, we would recommend including wages up to \$3,600 to provide more adequate benefits for higher wage people and bring the program into greater conformity with the Railroad Retirement Act. Since legislation is being urged to join the two systems insofar as survivor benefits are concerned, that would make for fewer headaches. More important, it would give us a little wider spread in the benefit range.

We have increasing doubts about changing the basis of the average monthly wage as we get into the question of extending coverage. We propose here to divide the total wage by 12 times the number of years in which wages of \$200 were paid—in other words, to consider only years of coverage and thereby eliminate long periods of unemployment, illness, or noncovered employment. Such a change would be particularly desirable if we didn't extend coverage, because interruption of covered employment is a chief reason for gaps in wage records and distortion or deduction in the average monthly wage. But if we get extension of coverage, this factor would have less effect. Moreover, for the self-employed, for whom the total to be reported is somewhat within the individual's control, there would be no inducement to keep more than fully insured. In other words, a self-employed person could report every other year, or once he got 10 years of coverage—40 quarters for permanently insured status; he would have no inducement to keep up the size of his benefit because it wouldn't go down except for loss of the increment. We may withdraw our recommendation for change in the basis of computing the average monthly wage, depending upon legislation on extension of coverage.

For the benefit formula, we would recommend 40 percent of the first \$75 of average monthly wage and 10 percent of the remainder up to \$225, with 1 percent increment for each year of coverage. The basic benefit for the \$3,600 man would be \$52.50 a month in contrast to \$40. We recommend a minimum primary benefit of \$20. Instead of \$85, the family maximum would go up to \$120; we would keep as a maximum 80 percent of the average monthly wage, but it should not reduce family benefits below \$30. We would eliminate the present maximum of twice the primary benefit. In effect, the increase to \$120 would take care of larger families. It isn't very costly because it applies to relatively few families. The primary benefit would be \$73.50 with 40 years' service and \$110.25 for a man and wife.

I am asking Mr. Murray to outline our major recommendations on extension and expansion.

Mr. Murray continued. Agricultural and household employees present several types of problems—problems in defining the coverage, determining his wages,

particularly wages in kind, and reporting. If we cover agricultural workers, we must make up our minds on how to define sharecroppers. We believe they should be defined as employees. For most purposes in the South, they are treated as employees, but there are many hairline decisions on whether a person is a sharecropper or share tenant. We think that distinction depends on who furnishes the workhorse and the plow, the big distinction in the South. We must decide what to do about family workers, particularly adult members of the family. And, of course, we have a large borderline group of quasi-industrial workers who we long have said should be brought under coverage.

With respect to wages, the principal problem is finding some means of determining income in kind. We believe that can best be handled by setting up regional schedules to show how much should be allowed for board and room or house. For both agricultural and household workers, we also have a real problem in the very low wages. When we consider how liberal the work clause should be, for example, we must take this very low-wage structure into account; that is one reason that we feel we couldn't go any further than the \$30. In many cases a person could go right on with his job when he reaches 65 and still draw benefits.

Mr. Harper asked if wages of household workers are low. "Not now," Mr. Murray replied, "but we shall get back to those days." Miss Woods thought not. Mr. Pogge said that wages are low as compared with other employments but that the significant fact about household workers has not been an increase in wages but reduction in number. In 1940 we had 2.5 million; now about 1.5 million. Mr. Harper added that with wages in kind, there is now a respectable wage scale.

Mr. Murray continued. For agricultural workers, the big reporting problem is in migratory labor. There is also the problem of the farmer with one hired hand. Extending coverage will greatly multiply the number of reporting employers. We shall have about 2.3 million agricultural employers reporting and as many or more employers of domestic workers, as against the total of 2 million employers now reporting. On the other hand, 80 percent of the employers now reporting have less than 10 employees and 28 percent have only 1 employee. We can handle small employers without undue expense. There are some very large employers of agricultural labor but very few households with more than 1 or 2 servants; some household employees work for several employers, and we shall have more employers than workers.

Because of the reporting problems, we have searched for simpler methods of reporting. For years we have been more or less assuming that we shall have to use stamps to collect contributions from agricultural and domestic workers. The more we have examined the problems, the more we have come to think we might make a payroll system work. We have assumed too easily that a stamp system is self-policing. If we had current insurance—let's say health insurance—also using stamps, so the worker had to keep his stampbook current and realized its value through occasional sickness benefits, we would have a powerful incentive for the agricultural or domestic worker to see that stamps were put in his book. If he has only the benefit at age 65 to look forward to, we have a real problem in educating him to the value of getting the stamp in his book week after week or day after day. With eligibility requirements of employment in only half the year, the domestic worker who thought it never possible to get more than minimum benefit would be tempted to forget about contributions once in a while. So we must reconsider whether this is really an automatic self-policing system. We have considered in detail what problems a housewife or a farmer would encounter in using the payroll system. We have designed simple recordkeeping forms to give to the employer and we are not sure but that we could educate the employer to keep track of these wages through the quarter and report on the regular reporting form. Which system we would want seems a fairly even decision.

Mr. Pogge took up the discussion. We are proceeding on these two premises: (1) We are confident that we can do it under either system. (2) We are sure that either system will be a lot of trouble in the early years. This means primarily a very intensive educational program. A lot of money and personnel time and energy will have to be spent in reaching the people concerned. In 1936 and 1937, an employer sent the applicant to the post office to get an account number; we didn't have to acquaint each employer with the respective obligations and the privileges under the system. In domestic service, at least, we may have more employers than employees.

We have been trying to get advice from personnel managers and other people who should know which system is better and would make the better appeal.

Mr. Murray and I have just come from a meeting at the Department of Agriculture of their postwar committee and their social-security subcommittee, made up of representatives of agriculture and land-grant colleges. We paved the way there for some meetings with the Farm Bureau Federation and other national organizations. They are spelling out in some detail what the two systems would provide. We also discussed problems of wages and contributions. We agreed that in discussing ways and means we must be sure not to obscure the basic question of whether or not people want this type of protection. If any sizable groups aren't convinced of that, they could lay hold of discussion of details, such as reporting, and sabotage the more basic question whether coverage should be extended. You may recall that when John Corson talked in Denver about payroll reporting or a stamp system for domestic workers, the headline in the newspaper was "Corson Would Make Accountant of Every Housewife." In 1936, we were accused of planning to dogtag everybody in the country. Let's be sure that groups to whom we talk about details are convinced of the desirability of coverage and anxious to help us select the best system for making coverage effective.

Mr. Neustadt asked why reporting cannot be done through the income tax. Mr. Pogge replied that for the self-employed it may well be tied in with income taxes. There is some danger, however, in hitching our wagon to the income tax on a permanent basis. We don't know what the income tax will be 3, 4, or 5 years from now. While we would use the facilities of income tax where available, we wouldn't make it basic. Certainly we would take advantage of the income tax in determining income for the self-employed.

Mr. Murray resumed. In the meeting at the Department of Agriculture, the chairman said he feared it would be bad psychology to ask for income-tax figures. Farmers now are bothered about not reporting accurately. We should underline what Mr. Pogge said about the limitation of use of the income tax. When we talk about the self-employed it is easy to picture a doctor or dentist. Our survey of the self-employed in Philadelphia showed the startlingly low economic status of most. The more typical self-employed person is the little merchant with the tiny store; many such merchants didn't realize that they actually were eating up their capital and not making anything. We were further impressed with the lack of any bookkeeping on their part or lack of any idea as to their net income. Perhaps they had a cash register and totaled what they took in but they didn't know what the profit was or what they had taken off the shelves to feed the family. We are impressed with the need for getting some very simple method for these people. Obviously they had to guess what they were reporting for income tax. We must start with the presumption that the typical self-employed person has a low income and keeps no records. Millions of self-employed persons are not reporting for income-tax purposes. The Board is inclined to think that the best we can do is to let them report voluntarily to us if they want to. We in the Bureau are a little more confident that we can make it compulsory—that we can take an assumed figure and charge a flat-rate contribution for those not reporting income tax.

Mr. Neustadt asked why not use the income-tax form for domestic workers? Mr. Pogge countered with a question on the housewife who pays a servant on a week or day basis. How would that be tied in with income tax? Continuing, he said that we want a quarterly period for the sake of accuracy, and have thought of the income tax only in connection with the self-employed. Mr. Neustadt asked about small-business men. Mr. Pogge replied it might help if he could take that payroll as a deduction, but he can't. There is no relationship with the income-tax return. Mr. Neustadt remarked it would be one less form to fill out, one less nuisance.

Mr. Hardy announced there would be a transposition in the program to allow continuity of discussion of coverage, and that Mr. Marley would take over.

Field problems in extension of old-age and survivors insurance coverage (Mr. Marley)

Mr. Marley said he understood this part of the program was to afford an opportunity to ask questions. He wished to know more of the committee of the Department of Agriculture. Mr. Murray replied that there are 6 university extension men selected from the land-grant colleges and 6 Department of Agriculture people. Noble Clark of Wisconsin is chairman of the group. Carl Taylor, head of the Division of Rural Sociology, has been behind the project and has been working a year and a half with us on a joint report. It will give the economic background for coverage, with discussion of some coverage problems, including chapters on unemployment compensation, health insurance, public

assistance, and so on. It will give a well-rounded picture of what the Social Security Act could mean to farmers and farm labor. Various bureaus of the Board are collaborating. This report will be a complete reference work for the use of farm organizations, university people, and others. In addition, the Department of Agriculture intends to issue pamphlets to be used in their discussion groups among farmers, carrying discussion to the grassroots.

Mr. Marley remarked that those discussion pamphlets were in mind in February 1944. Are they near completion? Mr. Murray replied that they are in draft form, but won't be released until the report is ready. The report has been expanding as they have gone along; they only just decided to include the whole social-security program. They have become convinced that the health problem is the No. 1 problem of the farmer and want to build the groundwork for getting the farmers' support for health insurance.

Mr. Neustadt asked how farm workers can be kept legally exempt from UC if they are under OASI. Mr. Murray replied that this report will propose that agricultural workers be covered for the whole social-security program. Mr. Neustadt said he thought the general trend among farmers was to try to get in under OASI but keep out of UC. Would that tempt others to be exempted—insurance salesmen, newsboys, and so on? Mr. Murray thought not.

Mr. Murray suggested that discussion turn to specific administrative problems in using the stamp plan in the field. Perhaps half the agricultural workers, domestics, and farmers have account numbers today. We would publicize the new coverage and get the rest of them to apply. That is not a major problem; it might result in a grand rush for a month or two. The original issuance of the stampbook would be a big job. We might ask the Post Office Department to assist us, though we would prefer to do it all. When it comes to exchanging books, we would use our field offices, making them a point of contact to educate the employee in his responsibility. The Field Division believes that only moderate expansion of the number of field offices plus the many contact points would suffice if we could expand personnel temporarily to have full-time people in some of these contact points to get through the initial issuance. Once every 6 or 12 months books could be turned in and new ones issued. We would handle that by having people bring or mail them in and by issuing the new books directly from Baltimore to those who mail in their old ones. If we believe there is no great harm in having an overlap, we could get the employees to send in a postcard for a new book about the 1st of June and then, as soon as they receive a new book, drop the other in the mail box to come back to Baltimore. Or employees might go to the field office for the new book. It would be an advantage in education at that point to issue the books personally.

Mr. Marley remarked that counties have community meetings on the agricultural program. There will be one early in the year to announce this year's program. It would be a hard but desirable job to reach these communities about the same time and perhaps use voluntary workers to issue books. Mr. Pogge commented that those attending would be farmers; the discussion had been about wage earners; Mr. Marley said wage earners could be called in the same day.

Mr. Murray went on to say that county agents should be used as much as possible in the educational program. In sale of stamps, as the act provides, we would use the local post office and also have stamps available at field offices. They also could be given to the rural mail carriers for sale on the route. Mr. Pogge said he would prefer to do the job without calling on the post offices. The postmaster might not take a deep interest in the job. Mr. Marley said we had had the best kind of help from some post offices.

Miss Woods asked if present thinking favored the stamp system rather than payroll reporting. Mr. Pogge replied that the decision is very close. The Board sees some obvious virtues in both and hasn't made up its mind. It might want to present both plans to Congress. There would be a disadvantage in having two types of reporting. Agricultural labor isn't always agricultural labor and houseworkers couldn't always be houseworkers. Wouldn't they be confused if they had two systems? Mr. Murray showed a sample of a modified form SS-1a and stampbook. When the employer turned the SS-1a in, he could attach stamps instead of sending a check or money order. They might use ordinary postage stamps, Mr. Pogge added. Miss Woods asked what Internal Revenue thinks of stampbook reporting. Mr. Pogge replied that they wouldn't have anything to do with a stamp system. The Wagner bill provisions would give the Social Security Board authority to collect contributions or to delegate the responsibility to some other agency of Government.

In response to a question from Mr. Lyle, Mr. Murray summarized earlier discussion by saying that the Department of Agriculture has appointed a postwar planning committee to work with the State extension service directors in land-grant colleges. That postwar planning committee is responsible for developing policy on many postwar problems. It is significant they selected social security as one of the first four topics they wanted to take up. Mr. Lyle commented that the Bureau is dealing with the American Farm Bureau Federation at a national level while regional offices have been working with county agents, Farm Bureau heads, and State extension service directors. Mr. Murray said there was no conflict. Mr. Marley asked if he could have a report of meetings with the Department of Agriculture to keep up to date. Miss Engle also thought that would be very helpful.

Miss Woods asked if the Bureau is working with any group of women on coverage of household workers. Mr. Pogge replied that it is difficult to get really productive contacts; we are trying to get a group in Chicago. Mr. Murray said we have also been working with the Women's Bureau in Washington. Miss Engle commented that domestic employees are not the women-club type of person. Mr. Murray said the YWCA industrial department has shown as much interest as any. The Women's Bureau has given us names of other groups to contact. They also are writing a joint report with us.

Mr. Murray suggested going on to coverage of the Armed Forces. A couple of weeks ago Senator Wagner introduced a new bill that embodies the substantial agreement of interested Government departments, reached through meetings of a committee sponsored by the Budget Bureau and including representatives of the Department of Labor, Farm Bureau, Army, Navy, Veterans' Administration, and ourselves. Briefly, wage credits at the rate of \$160 a month would be given to all persons in the Armed Forces from September 1940 until discharge from the Army after the cessation of hostilities. That is the rate credited under the Railroad Retirement Act and also represents approximately the cost of pay plus subsistence for a private or common seaman. We considered giving the average of previous pay or actual pay while in the Army or Navy, but that would be very difficult to construct. This seems a good average. The Government would pay the contribution for employer and employee retroactively for the whole period of service. A really great backlog has accumulated; at present 13 million people are in the Armed Forces as against 50 million in covered employment. Mr. Pogge remarked that at 2 percent it would cost between \$700 million and \$1 billion to catch up on contributions, and that the annual cost thereafter would be about \$400 million a year.

Mr. Murray continued. The principle is to dovetail our benefits with the veterans' benefits. Wage credits given the armed services would be called gratuitous wage credits. If a person is eligible for veterans' benefits, his average monthly wage would be determined on his average normal wage credits; his war-service credit would give him restored insured status. Once we restored that, we would pay the OASI minimum; anything above that would be determined by using non-war-service credits. If the individual is not eligible for a veteran's benefit, he would get full credit for OASI. If the man dies during the war, survivors normally would get full veterans' benefits and OASI benefits either at the minimum or what the survivor gets today. After the man is demobilized from the Army he gets full protection of war-service credits for the time he was in the Army; those credits would also apply toward his old-age benefits. The principal value of these war-service credits will be after the war rather than during the war. As far as OASI is concerned, his wage record will not have been damaged by his having been in the armed services. It will be augmented.

Mr. Wrenn asked if the worker will be credited only if he had a wage record before he went in the Army. Mr. Murray said no. We would not pay a benefit, however, unless he has at least six quarters of covered employment either before or after leaving service. That is to identify him as a person generally covered by OASI. But those credits would stay on the books and if he came in later, he could use them. Mr. Pogge cited the example of boys now in the Army: If they should die, we wouldn't pay a lump-sum benefit. It would be rather meaningless, particularly because there won't be any private expense for burial.

With respect to Federal civilian employees, Mr. Murray continued, we have both a long-range and a short-range problem. Even in normal times there is an in-and-out movement. So far we have no possibility of getting a permanent solution to that problem. We have worked up a plan for covering all

Federal employees. The OASI benefit would be their basic benefit, with the reconstruction of civil-service schedules so the individual would always get as much as he does today under civil service and would be able to get additional benefits for his wife and children. The Civil Service Commission took the initiative in recommending a temporary plan for caring for workers who come in during the war and presumably will return to covered employment. The Commission proposes that any employee who is in service for less than 5 years would, if he ever became insured under our program, have his wage credits transferred in an amount equivalent to the taxes he would have paid if he had been covered for that period under our program. The Commission would withhold the lump-sum refund until he became insured, because they say the employee might come back into Federal service. Our contention is that it would be better first to make this a temporary plan, having in mind that it is really not a satisfactory solution to the problems of transfer back and forth. For the war period, we will have to go along with this solution. We would propose that at some specified time after the end of the war all temporary Federal employees who have left during this period would have part of their contributions transferred to our fund and would immediately get wage credits. That is a technical difference. There is a substantial agreement on the general principle that these temporary Federal civilian employees would have their wage credits transferred to us along with contributions of 1 percent of their wages, which would be withheld from their civil-service refund. The Government as employer would match their contribution.

With respect to State and local employees, we are aware of growing sentiment for coverage of public employees who have no retirement system. In almost every region some State legislatures or State or local bodies have appealed to Congress for action. It is generally recognized that coverage will have to be voluntary, although some States would evidently like to have compulsory coverage of State employees. The most significant recent development is in Iowa, which has passed a statewide retirement law covering all State and local employees. It is an exact duplicate of title II, with retirement and survivor benefits, and provides that, if State and local employees are covered under title II, the system will be transferred to us. That shows how sentiment is growing in this field. Because of constitutional limitations, we apparently can extend coverage only on a voluntary basis. The Board recently agreed on a plan to enter into voluntary contracts with States; States then could enact a law to permit local units to come into the State plan voluntarily. We would deal with the State, but the State would in turn deal with localities—police their contributions and so on. Local units would go as far as they wanted to in coming under coverage. Under such a system we could have certain controls. We don't want to be in such a position that a local unit can pull in and out as it pleases. Once in, it must give due notice before it drops out, and if it fails to make contributions we would withhold grants under other parts of the program until the State collected and paid the contributions. Miss Engle asked if we would withhold PA grants. Wouldn't that be killing hostages? Mr. Powell said that perhaps the grants for public roads might be withheld. Mr. Murray added that we would have to have some kind of club. We certainly would want entire units to come in. We couldn't let them designate John Jones and cover him just because they wanted us to. We might let them exempt firemen and policemen or other special groups and we might put some limitation on the size of the municipality that could elect coverage. We wouldn't want a little hamlet covering only the constable and electing coverage only when he was about 60 years old. One control we could effect is to give them the advantage of a new start on an insured status only at the time of the amendment or within a year or two after it went into effect.

In the nonprofit field, except for the clergy and religious brotherhoods, there is a general sentiment for coverage. A new voluntary retirement plan has been sponsored by the Community Chest of the United States. It has brought letters expressing concern that it might undermine the extension of coverage to nonprofit groups. The Community Chest had asked the Board to go over the plan in advance to see if there would be any conflict with extension of coverage, because they also wanted extension. The plan is so designed that if coverage is extended to nonprofit institutions, the contributions to this group annuity plan will decrease automatically by the amount the institution pays in OASI taxes, so that it would automatically become a supplementary plan such as industrial employers now have. We thought it very liberal as an employer annuity plan and therefore generally endorsed it from that standpoint. It will not conflict at all with extension of coverage.

Mr. Wrenn asked about the plan Senator Wagner is considering now for inclusion of lay employees and clergy through contributions that would not be called taxes but would be put in a fund and be paid out in benefits without need for annual appropriations. Mr. Murray said there are two bills, including the Lynch bill and a bill which provides for automatic transfer of contributions to the trust fund. The National Catholic Welfare Council, which is sponsoring this idea, worked closely with us on wording of the latter bill. Mr. Wrenn asked if the proposed Wagner bill and Lynch bill would cover laymen of religious institutions and also clergy and religious orders. Mr. Pogge replied that neither bill provides for covering the clergy.

Mr. Hardy said that if there were no further questions Miss Woods would take over.

Field staffing and classification problems of old-age and survivors insurance
(Miss Woods)

This subject lends itself much better to discussion than to dissertation. Several regional directors, including myself, would like to raise some questions about present policies in terms of both current and future operations. The first is the present classifications of field offices. Except for class 1 offices there are certain top limits to each class of field office in terms of workload units. The requirement for class 1 offices is 30,000 work units, but there is no top limit; it can go into the stratosphere. Shouldn't there be a reevaluation to set a top limit? This might be done in more than one way. When the workload unit reaches 65,000, another office might be automatically established in that community. It might be a question of reevaluating all field-office classifications. In the class 1 offices with 119,000 work units, the manager, the assistant manager, and the entire top administrative staff have responsibilities entirely different from those in offices with only 30,000 workload units.

Mr. McCarthy commented that Bureau studies showed the most economical and efficient method of operation came from class 1 offices close to the 30,000 mark. Miss Engle asked if the class 2 offices weren't supposed to be the most efficient and economical. Mr. McKenna replied that the studies show the larger class 2 offices somewhat more efficient than either larger or smaller units. Offices at the top of class 3 or lower part of class 2 have about 12 to 16 employees. There is no easy explanation. As size grows, the staff includes certain supervisory personnel who don't actually enter into production as much as supervisors do in the somewhat smaller office. Our time-study data indicate a little more in overall production than in the larger offices. Mr. Kasius said that the purpose of the offices is to serve the community and claimants. Size of the workload is not incidental but certainly should not be a sole factor in classification. At a certain point another office may be needed; the decision depends on how much better the program would be if an additional office were opened. Mr. Pogge explained that this is about the basis on which we now proceed. We have different patterns in different cities. The difference between Detroit and Cleveland, for example, reflects a determination made on the basis of the best service for the community, rather than the size of the office, taking transportation into consideration.

Miss Woods asked if there shouldn't be some differentiation between small and large class 1 offices in the classification of the administrative staff. Mr. Pogge questioned in return if there should be a difference in the salary of regional directors, depending on the amount of business coming out of that region and wondered if classifications can be made on quite so fine a basis. The Bureau, he continued, has no conviction on that. From our observations, no field office is now so large that it is inefficient. The largest offices have about 120,000 units and staffs of 40 to 50. Miss Woods commented that for managers of class 2, 3, and 4 offices workload is taken into consideration. There is wide variation in size of class 1 also. Mr. Pogge said that if managers with more than 100,000 work units were grade 13, we would have the question of overlapping with salaries of regional representatives. Mr. Kasius and Mr. Wrenn queried whether the basis is quantity or quality. Miss Engle suggested that problems in quantitative measurement exist. A field-office manager may be doing a good job and we either must uproot him or put him elsewhere or keep him in a job as a decreasingly happy person because he has reached the top limit, even though we sometimes know that he will be a less valuable employee to the Board. Miss Woods declared that a manager in a small office is just as much a representative of the Board in the community as the manager of a large one. Mr. Pogge said there is a real opportunity and obligation for study of the salary

minimum for any representative of the Social Security Board in a field office. It is a question whether \$2,600 is a right minimum. We raised the minimum from \$2,300 to \$2,600, but we don't have a perfect system of classification yet. We want help from regional directors and regional representatives.

Miss Woods then raised the question of reclassification of offices at 2-year intervals, about which there has been some criticism. Three class 1 offices in region V have been reduced to class 2. Mr. Pogge said upward revisions have been made in the great majority of cases. Miss Woods replied that the downward revisions, though few, give the headaches. Before borderline offices are reduced, might there be a tendency for some artificial inflation of workload either to preserve the classification or to get a higher classification? Mr. McKenna suggested talking first about classification on the basis of a 2-year average, which means as time goes on, an annual evaluation on the basis of that average. We originally proposed a 3-year average and adopted the 2-year average on the theory that the closer we kept to actual fluctuations in the workload, the better the plan. This plan has advantages; however, it also has the disadvantage of some lack of stability in a man's classification. Of course, that applies primarily to borderline cases. A man in the middle of a class range knows his situation is fairly stable. Does this 2-year period tend to create too great instability? Miss Woods said that where the workload has skyrocketed it might certainly drop below this 2-year level. Mr. Pogge added that we all agree that this is a poor time to be thinking in terms of a permanent formula for classification of field offices. Miss Woods asked whether, if we get extension of coverage, it would be possible to go back more to the idea of the compensable workload. Mr. Pogge replied that it might be a better basis than it was earlier, because complete coverage might better reflect what to expect in the workload without getting into the question of determining the quality of job done in the field office. If there was any finagling it would show up in quality. Miss Woods said that wasn't too much of a problem.

Mr. Wrenn cited a manager who might work very hard to raise the classification of his office from 4 to 3 by writing unnecessary letters and memoranda and taking claims he knows will be disallowed. He questioned the policy of declaring the new job a vacancy because of a change in classification, because that encourages inefficiency. Mr. Pogge suggested starting out with the premise that it does not mean that the man wouldn't get the advantage of the increased work. Assume that A and B work in class 2 offices at the same grade. In A's office, the workload increases so that his office goes up. In B's office, the workload decreases so his office goes down. Is it good organization to freeze A and B in their jobs? Mr. Wrenn mentioned the case of a man whose office is reclassified and he is left in his job. He goes from a permanent to a war-service job. That is the way he is journalized. We take away his permanent job and give him a temporary job. Mr. Pogge said he didn't know exactly what the situation was. It may have been due to the fact that any appointments after a certain date automatically were war-service appointments. We are considering the long-range problem whether or not it is good organization to freeze the man in the job simply because he happens to occupy that position at the moment. In 9 cases out of 10, the individual already in the job and doing a good job will get the higher grade. How does it work out when the office is classified downward? If the man is a good man, we want to take care of him. It works two ways. Take the example just given: A's office goes up and A goes up. B's office goes down, but B is a better man than A. Do you want to freeze them both in their jobs? Miss Woods asked if that isn't within administrative discretion? Is it necessary to declare a vacancy? Mr. Wrenn replied it was the Bureau policy to declare the position vacant. Mr. Pogge asked how we would get him out.

Miss Engle said all are in agreement as to what tagging of specific positions means to the man in military service. We sometimes have three men in the same war-service position. Where do we stand when we begin to restaff? Miss Woods suggested that extension of coverage might solve that question. Mr. Pogge added that there is justification for reopening some field offices for which we haven't had the personnel, even without any extension of coverage. Mr. McCarthy asked if it is possible to make differentiations because of conditions and circumstances. Perhaps 1 person has been in a job 7 years and another only a year. Mr. Pogge said there was disagreement whether we want to leave the person on the job because his office has been reclassified if we have a man at the new grade who is demonstrably capable.

Mr. Hardy asked Mr. Waggy's opinion. Waggy said that when the office is reclassified, really the job is vacant. That is to say, at a later time we can then

move an individual to the new office. Two actions are involved: (1) Reclassification of the job, presumably because the duties and responsibilities change. (2) Determining whom you want for that job. The Bureau is right in declaring these jobs vacant when they are reclassified. In the matter of war-service appointment or promotion, our policy is fairly clear that we make a promotion on what we consider a permanent basis when the person promoted is deemed to be the best person available, meets the peacetime standards for the job, and no military absentee has a better right to it. The Bureau's promotions seem to have followed that principle faithfully. Mr. Pogge said we can declare an appointment permanent rather than war service. We have been bending backwards to be sure that we have been considering not only people at home but also those who are away in other Federal departments or in the Armed Forces. Where there has been any reasonable doubt we have made war service appointments rather than shove people ahead in others' absence. Mr. Wrenn asked if the separation formula won't take care of the situation. Return of war personnel will entail moves anyway. Mr. Pogge said he referred to promotion. We have a grade 7 man and a grade 9 position open. The military absentee should have been considered for that job. If we think the absent man deserves consideration when he returns, we may want to put another person in that newly created position on a war service basis. Miss Engle remarked that soldiers don't come back in mass formation. Region IV has a half dozen back already. Each time, we have to go over the various processes to see where they will be put. Most of our present discussion is hypothetical. We shall have to restaff and replan from scratch. Mr. Pogge added that we have to do more; we have to restaff and replan every time an individual comes back. It is desirable; he continued, to look at permanent positions that aren't tagged for anybody and make selections on paper right now so that we won't be under pressure when the first soldier comes back and says he thinks he should have that job. We could show who had been considered and what jobs he was considered for.

Mr. Hardy questioned Mr. Wagy on an office that is reclassified upward. Does Bureau policy declare the new job vacant because it is classified upward and interfere with the right of the individual who has been in it to continue his particular job? Mr. Wagy replied that his job is classified a grade higher. We are presumably responsible for placing him in some other job if we don't decide to move him into the higher job. Certainly, we cannot leave people stranded. In the departmental service, we have discretionary power. Miss Woods asked if the Board had considered giving the regions more appointing authority in the higher grades? Mr. Pogge asked in reply what they would like to have. Miss Woods said she understood Mr. Wagy to say that people in the departmental service can send a reclassification over to civil service. They say we can't do it. Mr. Neustadt asked if she would decentralize that process. Mr. Harper proposed that the regions have responsibility for all appointments except perhaps regional representatives. Miss Woods said there would be some disadvantages but also some advantages. The regions are in a rather good position to know which employees should be promoted to which jobs. Now we often hesitate to discuss a possible move with an employee until we get some indication from the Bureau; sometimes the authority to make the move comes through on 1 day and we have to say to this man that he has to move to Escanaba or some place on the next. Mr. McCarthy remarked that that point is important. A man may have to sell his home and make other difficult arrangements. Other issues come up, too. One now current is a good example: The Bureau is holding up approval of transfer of three men, though the regional office has recommended the change. In recommending these transfers we think not only of the relationship of the grade to the job but relationship of man to man. Who will be effective and work best in that particular situation?

Mr. Powell said there could be no harm in talking with a man and seeing what his feelings and preferences are before you make recommendations, and he shouldn't think the Bureau would set a deadline for effecting the action after it was approved. When the regional office runs up against an emergency and necessity for quick action, the Bureau is equipped to give reasonably prompt decisions by telephone. Mr. McCarthy added that sometimes it is a question whether the Bureau agrees. They seem to discuss the matter among themselves. That is a good thing. We know best who can fit best in what place, but we also know that unrestricted action all the way down the line may give the devil's own job of getting anybody out of region V, for example, into region VIII, no matter how many nice vacancies there are. Miss Engle remarked that movement across regional lines has become more general.

Mr. Powell said that attitudes that existed up to a year ago have been entirely dissipated now. Once we know what a person can do, our inclination, despite all theory, is to say, here is good old John who has done a swell job, knows the community, is from this part of the country, and has been here for a long time. That is the kind of folks we want. Mr. Neustadt suggested the reverse: "Here is John; he is a nice fellow; he isn't very much good to us so let's pass him on." Mr. Wrenn remarked that people want to live in certain places. Mr. McCarthy said he thought there is some advantage in Federal centralization and some advantage in clearance with the Civil Service Commission when necessary. In the regions we have a personal relation with district managers of the Civil Service Commission and sometimes can persuade them to see what we want. There should be a clear policy on such matters as horizontal movement. We have to consider whether one man can work well with another or whether his characteristics fit in a particular community. Mr. Pogge said he thought differences had arisen, not in selection of particular individuals, but in the basic policy of trying to minimize the number of moves in this period. He hoped we wouldn't have to resolve differences by decentralizing. Administration of regional offices is handicapped now because it takes far too long to get personnel actions through. We are determined to cut that down. The basic question, however, is whether personnel actions, even including higher grades, should be decentralized completely. Mr. Powell asked how many positions above grade 7 are not managers or assistant managers. The Board wants to pass on all such appointments. Mr. Mitchell said Mr. McCarthy would defend the horizontal move with no change in grade. What is the policy that prevents its accomplishment? Mr. McCarthy said he was blaming the Bureau. Mr. Pogge replied that the Bureau fully subscribed to Mr. McCarthy's position. Mr. Powell added that everybody took the same position. We agreed with the principle that the Board enunciated and stated the policy in terms of restricting moves that were not absolutely necessary at this time. Mr. Pogge added that distinction was made between people going into permanent jobs and those going into war-service jobs.

Miss Woods said the next question is the use of Form OAF-3024 for measuring staff, which she thought fine. Are the reports from the regions used by the Bureau to establish ceilings for the next quarter? Mr. McKenna said the Budget Bureau sets the ceiling. Miss Woods asked whether, if workload units go up, regional offices will have any flexibility in raising ceilings of particular offices. Mr. Pogge replied that more flexible methods are being developed for regional use. We have a staffing chart by units for an office; now, when work load warrants, one additional person may be added. A memorandum to liberalize that rule is being drafted. Another will permit recruiting more temporary workers.

Miss Woods asked whether the Bureau could waive the CAF-1 positions in the present tight labor market. We feel it costs the Board more money to recruit for them than it saves in salary. Mr. McKenna said some larger offices have routine jobs classified as CAF-1 and 2. Mr. Neustadt commented that the pattern is all wrong. We have competent mature people as assistant managers. Do we need mature people for such jobs? After a man has won his spurs he should become manager of a smaller office. Mr. Pogge replied that would eliminate the manager in the small office. In many larger offices, with staff of 45 or so, we can't get along without 2 top-rate chiefs; there is too much work in training and supervision to put on one person. Mr. Wrenn said there are two people in an office with grade 2 administrative personnel. Mr. Pogge replied there was no compulsion to fill both jobs. Mr. McCarthy replied we are likely to lose them if we don't fill them. Most class 1 offices have 12-15 people. Both managers and assistant managers have said that the assistant managers are glorified field assistants. Mr. Pogge declared that the manager's work depends on his concept of his job—on how much out-of-office work is done. Managers and assistant managers in smaller offices are spending more time in offices today because of planning. Mr. McCarthy proposed a lower grade for assistants. Mr. Hardy asked if that didn't mean a senior field assistant. Mr. Pogge said that meant that in larger class 1 offices we may want two high-grade people and a grade 6 senior assistant. In some smaller offices, rather than staff arbitrarily with a grade 10 manager, we staff automatically with a grade 8 manager. Some gradations might be distinguished there. Mr. Neustadt declared there are too many competent men in large offices.

Mr. Hardy said he wished to thank Mr. Pogge for the outline of his remarks provided for the directors to take home. Mr. Pogge remarked that regional directors had asked for discussion of decision on closed corporations. Several

field-office managers and regional representatives had urged us to make this decision. It is possible that we may have gone too far, however, in the first approach. We have led the field offices to believe that this rule had to be rigidly applied. We need additional explanation of our philosophy and some liberalization. We will get more respect by applying that rule reasonably than if we followed the old rule and just paid benefit irrespective of the change in the individual's situation. The only fellow who will feel badly is the man who is taken off benefits.

Mr. Neustadt served as chairman of the fifth session, which considered unemployment compensation.

Planning for postwar problems in unemployment compensation (Mr. Clague)

Mr. Clague briefly summarized trends in unemployment insurance. Of 46 States with legislative sessions in 1945, about two-thirds have adjourned. Bills proposing coverage extension have been introduced in 26 States, and some have been enacted; extension of coverage has not been spectacular, however. Of 32 States proposing to increase the maximum weekly benefit amount, 14 have raised the amount by \$2, \$3, \$4, \$5, \$8, or \$10. A provision for dependents' allowances has been adopted in two States and is pending in two others. Of 41 States showing interest in increasing benefit duration, 15 with legislatures adjourned have raised duration by 1 to 10 weeks; proposals failed in 8 States and are pending in 8. Four States have reduced the waiting period to 1 week and similar reductions are pending in three others. Legislation to relax the severity of disqualifications has been proposed in several States but enacted in only a few. Experience rating has been adopted by New York and study of it is proposed in Rhode Island. Proposals to establish special administrative funds have been enacted in 11 States, defeated in 2, and are being considered in 3 others.

Some legislatures have been adjourned without making any progress; in others further changes are in prospect. All in all, the States will have a wider range from top to bottom than before; there is no movement toward uniformity. Progress has centered in some States. There are no spectacular retreats, but in some States unemployment compensation remains as inadequate as before the war.

Mr. McCarthy asked if Illinois had extended duration, mentioning a proposal that three times the benefit amount must be earned before a claimant can qualify in the second benefit year. Mr. Clague commented that such a provision is important in States having a calendar base year, like New York, where 1944 earnings are used for a benefit year beginning June 1, 1945. If a worker begins to draw benefits on December 1, 1945, he could get benefits for 26 weeks based on 1944 earnings; on June 1 he would enter another benefit year and perhaps get benefits for 26 more weeks based on his 1945 earnings without having had intervening employment. The Illinois law provides therefore, that a claimant can't jump from the end of one benefit year to the next without intervening employment. This situation doesn't arise very often in flexible-year States.

Miss Woods asked about attempts to abolish experience rating, saying that Michigan tried but failed. Mr. Clague replied that none succeeded. Rhode Island fought off experience rating once more until next year, but a study was set in motion looking toward adoption in 1946. Mr. Kasius added that New York came into line. Mr. Clague said that the number of States without experience rating has fallen to six. New York has a very unconventional system.

In writing an article for the Yale Law Review, Mr. Clague said he had had occasion to observe the incredibly erratic economic effects of experience rating. Employers' rate would vary among States for purely economic factors, such as State differences in the volume of unemployment, even if we didn't have experience rating, with a Federal tax offset. Without a national pool, a rate of 1 percent in one State might pay benefits that would require 3 percent in another. Experience rating, however, produces wholly erratic differences. One State may load the entire burden of benefit charges on the last employer. Other States charge all base-period employers proportionately to the wages paid the worker during his base period. In 1 State, a firm might close for 2 weeks for inventory, and all employees would draw a week's benefit, but there would be no charges. Under most State laws, that employer would stand the full maximum charges. Administrative anomalies produce wide differences in rates. The theory is that these differences balance out, but in fact they don't. Certain types of industries can't adjust to such situations. An industry with a short seasonal let-down, for example, can't avoid heavy charges in Cliffe-plan States, while they would not suffer seriously under the Wisconsin plan. This

aspect of experience rating is bound to become a critical problem as soon as rates begin to rise and employers measure the cost of their employment practices more closely.

Let's run on to Federal legislative developments. The Nation now faces the question what, if anything, needs to be done in unemployment compensation legislation. The significant element in the George bill, passed last year, was the loan-fund feature, designed to meet risks of State insolvency. Now the Federal Treasury serves as a bank from which money can be advanced, without interest, in apparently any amount required, to finance the State system temporarily. The State must repay it. Unless the State lacks authorization to take advantage of the provision, there is no risk of a State fund's going broke. That was all the George bill achieved. Is anything else needed? Two outstanding problems remain: Coverage and adequacy of benefits. Is anything Federal needed there?

Last year, consideration of the Murray-Kilgore bill ran into a fundamental dilemma of how to provide adequate benefits for the reconversion period. This bill provided for supplementing out of Federal funds benefits up to a stated maximum amount and duration and broader coverage, while the States had about \$6½ billion in reserves. Thus, it gave most Federal money to the States that had the least adequate benefits at a time when nearly everyone agreed that the States were financially able to liberalize significantly their State laws.

The Social Security Act should be amended to provide minimum benefit standards as a provision for tax-offset credits. The developments of the 1945 legislative sessions will undoubtedly emphasize that need. Some States have greatly liberalized their laws—New York, California, Michigan, while some have adjourned without taking any action—Arizona, Tennessee, and others. However, liberalization is occurring in the big war-industry States, where the bulk of war workers are covered.

Basically, what is the matter with unemployment compensation? Is the Nation sold on it, or is it convinced that it's a kind of depression phenomenon as in the 1930's; that it served a useful purpose but basically is a semidesirable program? Contrast it, for example, with OASI, for which all classes clamor generally for coverage. Acute attention is being given to the aged and it is fractional now compared what it will be in the postwar period, when the aged are out of work and in need of assistance. But what about our program? We might briefly run through complaints about unemployment compensation, what is said by people of all descriptions to reflect on its significance, now or in any immediate future.

One attitude is that people working in war industries are getting spectacularly high wages, that they have saved millions of dollars in bonds, and have absolutely no need for any unemployment compensation. Isn't that prevalent? Not particularly, said Mr. Neustadt. It is significant, Miss Engle replied. Mr. Harper said it has influenced consideration of need to increase benefits. That answer was given when legislatures, and particularly governors, were lukewarm. He hadn't heard it used as an argument for abandoning unemployment compensation. Not abandoning, Mr. Clague continued, but most people recommend leaving it where it is and trying to forget it. Sometimes it is argued that a veteran needs \$20, because he hasn't had much lately, but war workers have, and they don't need it; let them use their savings. Miss Engle remarked that the chief problem is that unemployment compensation per se is just a very broad general term, the content of which is less understood than any other part of the social-security program. Mr. Clague agreed, adding that was because very few people are getting benefits now. We ought, he continued, to bring out the facts about wages. Are wages high? A hundred dollars a week is high, but people are still working for \$9 a week and \$10 and \$12. What is the wage structure? Let's not be misled by average wages or high wages, but get a true picture. The low-wage workers are still here; we are still paying benefits of \$6 and \$7 a week, and \$5. There is a lack of knowledge of this situation.

A second objection is that most of the people now out of work could get a job and ought to get a job—they ought to be at work. Why are there 100,000 beneficiaries today? Why are veterans drawing any money? How about that one? Mr. Kasius said they heard that objection more than the first. Mr. Harper added, not only from the general public but from the USES staff. It is causing real trouble with the unemployment-compensation group. Miss Engle remarked that there is a battle between USES and the unemployment compensation; each points his finger at the other, and says, "Look at what you are doing." It ought to be

stopped. Miss Woods added that one governor says no patriotic citizen should draw unemployment benefits during this period. Mr. Clague said, How many of these people are chiselers? Miss Woods replied that in Michigan, for instance, most of the beneficiaries are women who have been laid off and can't readily get another job, although there is tightness in the market for male labor. Mr. Clague asked about the attitude of unemployment compensation administrators. Mr. Kasius declared they say that the program is unpopular right now—the best thing is not to say anything about it, because if we do we get on the defensive. He thought the attitude is to keep quiet. As soon as the program is needed they can move forward with a more affirmative defense. Mr. Clague said that is neutrality; he was thinking about even a stronger attitude. When a fellow believes in his own heart, "I don't want anybody coming in here for benefits," he will send down word, "Disqualify him; I am ashamed to belong to the program." Miss Engle said that statement was too generalized. Take the soldier-benefit situation. Admittedly, States are paying veterans' allowances on a wholly different basis, making decisions on the basis of entirely different regulations, rulings, and everything else. There is a very general and growing feeling among unemployment compensation administrators that these benefits to veterans are serving just as a transition wage, not an unemployment benefit. USES people, hammered for people to take jobs, say that the unemployment compensation people are paying the benefits to maintain their claims load. What can be done about that situation? In our States that is the most serious public-relations question at the present time. It hit one legislature between the eyes, and didn't do us any good.

Mr. Clague said he would give his own views. There is no doubt that some people are drawing benefits because they are not being referred. The USES is referring people to war industries; some people in the less-essential jobs are not placeable in those industries. A policy question arises. These people could be put in jobs but they can't be put in jobs to which the USES will send them. We answered a recent letter from a man who said, "You took my \$18 away from me." He was in a private-detective agency and was closed out by the ceilings on less-essential employment. He claims he knows of two different jobs in private-detective agencies, but USES won't refer him. He was refused benefits because he refused other employment. He is 63 years old. There is no doubt he can hold a job, but he hasn't been referred to the less-essential job. The public doesn't understand that situation.

As a second factor, no doubt some of these people don't want to go back to work. Many of the 5 million extra women have families, homes, children. When they get out of work they need a rest and prefer to stay at home; since benefits are payable, they can string it out for a longer period of time, and the employer doesn't want to take them back. These women were put on pedestals a year or two ago; people went around and knocked on doors and rang doorbells to get them into the labor market. They have worked 48 hours a week, in trying circumstances, for a year or two. They have been heroines, but general consensus is that they should be kicked out of the labor market as soon as possible. It hasn't dawned on them what their new social status is.

A lot of the people who are doing negative thinking about unemployment compensation don't understand the true situations. I have to ask myself, Is it true, and what is right, and what is the social policy? To every employer who wants to argue with me on what is suitable work I say, "All right, what kind of a job is suitable for you, to what job will you take a referral? Will you take a referral running a streetcar?" "Oh, no; that wouldn't be fair to me." "Why not? You ask other people to take that kind of referral." The question is, What is a reasonable basis for considering a fellow's previous occupation, for giving him time to look around in that occupation, and draw benefits while he is looking? What is this program for?

Mr. McCarthy asked how effective Mr. Clague found his explanation to employers. Mr. Clague replied that they react favorably, perhaps because he was so vigorous. Almost any man who is at all open-minded will see the point. "Here is a musician; are you going to put him to driving a truck? Maybe he could, but is he the kind of person to do that?" A few States are giving claimants varying periods of time in which to wait for a job at the wage they formerly earned or in their usual skill and thereafter say they must be willing to take lower wages or another occupation. In still other places they make arrangements under which union men, for example, who most bitterly resent being locked out of their usual occupation, take a temporary job and then move back when an opening occurs. The question is, What rights has a man in his own occupation? I think he has real rights. If we can get every critic to put himself in the position of the

claimant, we soon get an appreciation of the human problems involved in this situation. Take the idea that nobody should be drawing benefits—for example. "There are plenty of domestic jobs," says one employer. "Why don't they take those?" Jobs are open, but are they suitable referrals? I want to emphasize that in Great Britain, right down to date, after years of labor controls of both men and women, they pay benefits in higher proportion than we do in our labor market. Let's have an end to "These people are not entitled to benefits."

Miss Engle asked if we shouldn't coordinate action in Washington as a basis of a better public-relations job. The conflict in the field between unemployment compensation and USES agencies is building up the worst possible relationship for payment of benefits. Unemployment-compensation agencies say these 400 new employment offices are opened just to make jobs for veterans and politicians; and the USES says that unemployment compensation has to keep claims loads up to keep their jobs. Mr. Clague replied that this situation is getting worse, though the relationship is excellent in perhaps a dozen States. State administrators are campaigning vigorously to have the USES returned. USES people, on the other hand, are getting less and less interested in going back to the States. Of the 21,700 employees in the USES, 12,500 have come in since January 1, 1942. Many of them have no status under State law. In some States, as in Washington, perhaps 99 percent of the USES staff could return tomorrow and keep their present jobs. At the other extreme, hardly a person has any status, since about 9,250 have been appointed without regard to State lists. Then servicemen with reemployment will be coming back to claim some jobs. All but a minor fraction of the total USES personnel stand a chance of some shakeup on going back to the State.

On the other hand, the USES is very trying to these State people. One State unemployment-compensation administrator says USES staff have to be on the job 48 hours, but don't have enough to do. It is very embarrassing to his people in these same offices, who don't have comparable salaries. And now all these new offices, he says, more offices than there are towns in the State. The question of the new offices differs from State to State. In Wisconsin they have added only three.

Miss Engle said that in one part of region 4 three new USES offices are to be opened in the wilds. We reach the point where it is impossible to rationalize or explain. Isn't it possible to tackle that from the Washington level? The tide of newspaper criticism is rapidly rising. Mr. Clague said that the Bureau has a very sympathetic and friendly relationship with the War Manpower Commission. They participated with us in a report on seven areas that is critical of USES procedures, claims taking, and handling the unemployment-compensation work, and sent the report to all regions. We found very poor claimant relationships with the claims takers in one State, where the USES took claims and the unemployment-compensation people had no control. By contrast, in a special study of women in a Georgia community, our investigator reported a most favorable attitude on the part of the claims takers. The WPB had shut down the chenille industry. Many women were disqualified and felt resentful. USES people in those local offices showed the finest kind of courtesy, the most sympathetic attention to these women and their individual problems.

Mr. Powell said he believed that USES administrators in Washington are sufficiently concerned to give us some hope that rather vigorous steps will be taken to stop some of this foolishness. Miss Engle added that vigorous direction should be given unemployment-compensation agencies, too.

Mr. Clague continued. We are at the threshold of immediate V-E Day planning right now. Among other things, the Bureau has revealed probable workloads during the next 6 months and the remainder of 1945.

You will get our report. Briefly, it shows that we may have in this period an increase in workload to something like 1942 levels, the spring of 1942, or possibly 1941. While we have been running about 120,000 initial claims, our guess for the coming period is 720,000, 5 or 6 times the present volume; for continued claims, 1,800,000 instead of 420,000, 4 times the present number. But the climbing back doesn't go beyond any State's administrative experience in 1942. We do not envisage a major postwar adjustment in terms of claim loads during this calendar year. This represents a peak estimate. Most of us think privately that these levels will hardly be reached, but we want to express our estimates on the high side. States must be administratively prepared to meet the possible situation. Our biggest problem in this next period is the fact that the impact will fall very unevenly. Some States will not feel it, and for some it will be devastating. We must shift quickly, to meet particular situations.

We have a problem in that we are defending a budget this year of \$32 million. In the fall, under the Budget Bureau instructions, we assumed continuation of a

full war economy. We switched later in the fall to a presumption that V-E Day would have occurred by July 1, 1945. Then, still later, the Budget Bureau returned to the original assumption—that the war would continue full steam on both fronts. Now when we get down to defending our budget, that instruction is again obsolete. No method of meeting post-V-E-Day developments has been worked out. The States know that and know that supplementary budgets may be necessary during the next year.

At its last meeting, the Board approved the most comprehensive plan we have ever attempted for bringing the States into the budgeting process. They are to sit with us all the way through. There is one limitation; we cannot tell them exactly what we request from the Bureau of the Budget, but we will discuss workloads and unit costs with committees of the States from the beginning. For the 1947 appropriations request, we are calling in representatives of the grants committee of the Interstate Conference, and 4 or 5 technicians from the States, who are experienced in workload estimates. They will work with Bureau staff in determining rational workload estimates, and unit costs. Our first presentation of the 1947 appropriations request will have been made after thorough consultation with the States.

I feel personally that we have never had better relationships with the States on administrative aspects of the Federal-State relationships, so far as budgeting is concerned.

In the field of benefits decisions, we have not always done the job that ought to be done in analyzing and developing trends and needs. We are working to improve our own Bureau service. The Board also instructed us to see if the States could do some of the selecting for us of precedent decisions. That might make the States conscious of need for their own precedent manuals.

Finally, we are doing a lot to improve Bureau administration. Art Motley has come back to us as Assistant Director. Bill Curtis came to us from North Carolina, so a State man brings extensive State experience into an important division—administrative standards. All along the line in supervision of staff and in the machinery of operation, we have done a good preparatory job. Some States likewise have done a very good job, though some of them are still pretty weak they look good now because they have not had a real load.

Mr. Neustadt said that Mr. Lyle would lead questions to start discussion and make hot cracks at the Bureau. He advised Mr. Clague to keep his guard high.

Field problems in unemployment compensation (Mr. Lyle)

We start off with the problem of Federal-State relationships, which is somewhat unique, certainly different from anything on either of the other operating programs. So long as we continue to recommend annually that the State UC system be federalized—and I am in entire sympathy with that recommendation—it creates a strained relationship with the States. We think region VII has overcome that about as much as is humanly possible, but every other problem relates somewhat to it. We were much interested in references in speeches of the Chairman of the Board to a possible change in that relationship, such as matching grants-in-aid. I believe it will be almost impossible down our way to get real liberalization unless at the Federal level. If we could get broader coverage, shorter waiting periods, more liberal benefits in the Federal law, our State UC administrators would welcome it. That relationship extends somewhat into the administrative review, which is one of the best things the Bureau has undertaken in the last 2 years. The States are accepting it, and yet at times they misconstrue it. Would a relationship such as obtains in the welfare field be conducive to a good program in UC? The States might put up a part of the money for administration, the Federal Government put up part.

Miss Engle remarked that the anomaly of the whole fiscal structure is the basis of much of the difficulty of relationship. She asked Mr. Clague if, practically, a change could be effected in the present 100-percent financing by the Federal Government, which results in a sense of detachment on the part of the State as to the whole expenditure of the UC agency. The agency is neither State nor Federal.

Mr. Clague replied that is our view. Our agency is a hybrid. One of our worst difficulties—and perhaps PA feels the same way—is to assume that PA and UC are the same. Take financing: PA representatives want to get State salaries raised; they are too low. In the beginning, we had institutional inertia and some States set low salaries, but “them days is gone forever.” We might almost challenge you to name a State in which the UC salaries are not far in excess of those in P.A. There are comparable salaries in what are ruled as comparable State jobs, perhaps the job of the bank commissioner, or highway

commissioner, or other State officers but by and large, since our budgeting methods in themselves do not affect the salary levels in the States, our State agencies are in a better position than that of PA agencies. Salary increases do not cause a squeeze in State personnel, but are immediately reflected in the dollar personnel cost that we apply to the man-hours. We compare costs among States in terms of man-hours, not in dollars, and then assign whatever average salary is derived from the State payroll. The enforcement agency for State UC salaries is the STAS, not the Bureau. The Board has various checks on the State. The Bureau has a financial check in terms of comparability of man-hours of cost; we do squeeze high-cost States in terms of the amount of personnel time required for a given operation, but we pass freely any salary scale that is accepted in that State by the STAS check on salary classifications. Another check is the Bureau's budget review, and finally we have the Bureau's administrative review.

Mr. Neustadt asked if it is true that in many States salary ranges are higher than in the Federal Government? Mr. Clague replied, yes, but that is all right. Our program is clear-cut, and nobody is suggesting that the Board wasn't 100-percent right in establishing our salary-scale principle. We pay \$12,000 for an administrator in one State, and \$9,000 in another, and that is higher than the Federal scale for comparable jobs, but that is the way those States pay. New York generally pays more than the Federal Government. The problem is how to measure a comparable State salary, and how to measure a comparable State job of equal classification, especially since some States never had a merit system before and have no State scale.

A second aspect is efficiency, Mr. Clague continued. The administrative review has some policing aspects, but they are minimized. We know the policing aspect doesn't get us anywhere. The final threat is the withdrawal of funds, which wrecks the system, and consequently it is mostly a matter of putting on pressure. States are thoroughly reconciled to the administrative review. Bob Marshall, of Massachusetts, is not; he has been opposed to the administrative review from the beginning, on principle, on very high grounds. He agrees, just as you would, in going to the station with the policeman, because we must work together.

The final point is on efficient administration. Our statistics show really spectacular results in paying benefits on time. We ought to do better, however. Beyond that, these States now have money, they have machinery, and they have a Federal checkup on promptness in payment of benefits. If we went to the PA basis of financing administrative costs, we might have 4, 6, 10 weeks' delay in benefit payments, and nothing could be done about it if the State legislature didn't appropriate the money for administration. We have never yet had a delay in benefits caused by failure of the Federal Government to give States money for administrative expense. Despite all the things the States don't like, there is promptness. If our program is meant to be national, in at least its guaranty of prompt and efficient payment of benefits everywhere in the country, we have to have Federal financing. The minute Federal financing goes out, we shall have waiting lists, long delays that will be the normal situation when States don't have adequate funds.

Mr. Powell said the group might be interested in comments made last week at the Institute. On the question of a change to 50-50 matching, 1 or 2 of the State people said, "While the States are rich, retiring their debts, and have a surplus, perhaps we could expect good fat appropriations from the legislature; but we think we prefer to take our chances with the Board under the present arrangement, rather than go to a matching basis." Some of them, however, would like very much to be able to take the whole 100-percent offset and not go to their legislature. Mr. Harper asked how we would like to get rid of all the detail and a certain amount of policing and put the responsibility for operation on the States. Mr. Powell said the real question was how long you would have a UC program. Mr. Harper agreed.

Mr. Clague continued. Rather than 50-50 matching, the States are talking about getting the 0.3 percent back. About a third of the States would not have enough administrative money if it were not for the pooling of the offset. Ohio and Illinois, with the efficiency of large-scale operation, could operate with less than 0.3 percent including the employment service. But we have had a pooling of administrative funds and have been able to give 20- and 25-percent grants for administration to small States, such as North Dakota, Wyoming, and Montana, while at the same time big States can get by with 5 percent and 6 percent. We have had no pooling in the content of the

program and the benefits, but we have had complete financial pooling in administrative expense.

All the States realize the problem of the small State. A State with, say, 50,000 covered employees, like Nevada, can't help but have a costly organization. For a while Claude Williams pushed the idea of giving every State a flat amount, say \$200,000, out of the Federal Treasury by raising \$10 million through a Federal tax. In Georgia \$200,000 would be practically a 50-50 grant; in New York, it would hardly be felt. Other more complicated suggestions have been made, such as providing that when the legislature doesn't give enough money, the Federal Government will put in more money, and establish Federal rules. The penalty of having Federal rules would result from not having the State appropriate enough money. In cash sickness benefits in Rhode Island we had a preview of the basic difficulty. Rhode Island set 1 percent of the employee contribution for administration of cash sickness; then we urged that it be jacked up to 3. One reason why they have been able to get it is our insisting that the agency get enough money to finance its share of the cost of UC administration. If we hadn't had that pressure, if there had not been an agency doing both jobs and therefore aware of the relative efficiency of operation, we wouldn't have had that drive upward. Some State legislature would give 1 percent for UC administration and that would soon end the program. Dire difficulties wouldn't arise everywhere. Many States would finance administration reasonably well; two or three might provide more than the State is getting from us.

The real problem is whether there is a Federal function here, and what it is. So far, it has been confined to administration and has not been a bad job in either getting or allocating money. If you throw out that whole Federal function—prompt payment of benefits and all the rest, for it all goes out together—you have a State-by-State system. Some States are suggesting the best way is to knock out the Federal function, have no Federal law at all, and adopt a State basis, like workmen's compensation. Why not drop back to the level of workmen's compensation, drop out all Federal responsibility? Why have any function to insure that if a State doesn't have a law, we double-tax the employers? Then they must do something, but if they can't pay benefits, what is the use? Why have a veto on administration in the form of doubling a 2.7 tax instead of in the form of allocating or withholding a simple amount of administrative money? We would then be substituting a Federal control of far greater magnitude but less easy to use than the one we have now, and thus less effective.

Mr. Wrenn remarked that some States claim that the cost of operating a Federal program would exceed present costs. Mr. Clague replied that a Federal program would be cheaper inevitably, because of all the small administrative machinery now in small States. There are 51 tax-collecting agencies. A Federal program would use the Federal collecting authority; that would save about \$3 million as a start. The true comparison is to ask the cost of Federal operation of the present system with the same offices and this year's workload. The States spent \$31 million this year. What would we have spent federally? I don't know, but if we did it as cheaply as the most economical States, \$25 million.

Mr. Lyle said Mr. Clague had taken much of his ammunition on the next item, budgeting. Mr. Clague continued. The States would be consulted on the two main elements of a national budget. We never present State-by-State estimates to Congress. We don't know where the money will go. We get unit costs for each function and nationwide workloads. This year, for example, we presented an estimate of 3.6 million employer contribution reports, that is four reports for each of 900,000 employers, at \$2.25 apiece—the average cost at a given time. That is our method of presenting a budget for the tax-collection function. We will discuss workloads with State representatives and the basis for determining unit cost. With increased workloads, what is an appropriate unit cost? In one State three claims were taken in a month. The cost was tremendous; the chief of the benefits section spends half his time on that job. As the load rises, the benefit unit cost falls. We might select the first quarter of 1942, the last time we had a spectacular workload under wartime conditions, and apply to its unit costs a future workload that we think about comparable. When we actually work out the dollars and put a figure together for the Board, the Board reviews it and sends it to the Budget Bureau. At that point, the States would not know the figures selected, but they could guess it closely enough.

Mr. Kasius asked if interstate conference machinery is being used. Mr. Clague replied only in that the discussions will include representatives of the Interstate Conference Committee on Grants. We are clearing with the State

agencies, but we are selecting the technicians from the States. We don't select for geographic reasons. Miss Engle asked if clearance was to be made with a nongovernmental organization, like the interstate conference, of persons brought in as consultants to the Government. Mr. Clague said that in this business the Bureau suggested which people they wanted. If the conference had other suggestions, the Bureau would be willing to listen to it.

Mr. Harper asked if there would be discussion of the budget review. Mr. Lyle said it was listed for whatever discussion the group wanted. States cannot understand, he continued; how some differences in budgets relate to population, number of covered workers, so on. Mr. Clague replied that the heart of the budgeting question is how to distribute funds among States. We have made genuine progress, he continued, but it is somewhat like the progress of a squirrel on a rotating wheel; the problem moves ahead of you. Some problems arise because certain kinds of processes in the State cost a great deal more than others. In employer contributions, for example, the workload unit we use is the number of covered employers, times the annual number of reports—four in nearly all States. But some States cover employers of 8 or more, some 4 or more, some 1 or more. Pennsylvania and New York have nearly the same number of employers, approximately 130,000, but New York goes down to employers of 4 or more, Pennsylvania to employers of 1 or more. In Michigan, on the other hand, they cover only 8 or more, so that State has only about 20,000 or 22,000 employers, one-seventh of Pennsylvania's number. How much do we allow per employer?

To carry it further, not all the employers are of the same size in States with the same size-of-firm coverage. In the highest State in size of employer, the median employer has 20 employees. In Michigan, one employer has 175,000 wage records in his account. We are measuring everything from the giant employer down to the smallest employer. Now how much does it cost to handle an employer's account—just his account, policing it, getting it in, ending delinquency, getting the checks from the bank, and so on? We divided the States into three groups: First, Those with coverage of 6 or more; then those with coverage of 3 or 4; and finally, those with coverage of 1 or 2. From an analysis of these three groups, we find, for example, that on the first, it cost 3.59 hours of a man's time to carry an employer report, per quarter, in one State, while in that very same group, another State does it in 1.35 man-hours. The second group of States actually overlaps the first one; in it some States spend 2.11 man-hours per report and the bottom one, spends about 1.14 hours. Finally we have the States with the one's and two's—they run up to 2.15 hours and down to 0.79.

In deciding how much should go to each State, what is a reasonable cost and how much to allow for variations in cost, we use the average cost for the group of States. We know some States are above that, and some below. We put pressure on the higher-cost States, i. e., those above the average to reduce their costs. This is the main argument we meet. The State that uses $3\frac{1}{2}$ man-hours for a unit of work, contrasting itself with the State that uses $1\frac{1}{2}$ hours, says, "Look at the wonderful job we do. When you look at what we do, you will not force us down to the level of those fellows, who are notoriously inefficient." That is the basic problem in budgeting. How do we tie together quality and cost of work? We haven't been able to tie the two together because we have been unable to get any measures of efficiency of performance to parallel these measures of varying cost. If we had, we would be at a new plateau in scientific budgeting. At it is, we just say as long as the State is performing at minimum efficiency to warrant grants, we raise no questions of differences in quality. We squeeze the high-cost States and let the others run along fairly well unless there are wasteful items we can pick out readily.

Mr. Lyle remarked that in UC the Board cannot control use of the most economical methods. Mr. Clague continued: We can't say, "Chuck out that IBM system, and use slips," or "Put in mechanized systems." That is their choice. They say, "Nix; we are going to do it this way." So we don't actually control the choice of low-cost methods. It stands to reason that a national system would be cheaper if we could bring to bear the Bureau's experience. We would have authority to install cheaper methods and could limit all the elements of high costs and center on those with low costs.

We admit that some States using $3\frac{1}{2}$ man-hours per contribution report do a bang-up job, and some States doing it faster, do a weak job. The State doing a bad job can get relatively more money from us; we can even insist they use more money. A State that was very lax in handling appeals because it did not have enough staff would have a perfect case against us. "If lack of staff time is the

cause, it means you are not giving us enough money for administration." But the reverse is true. If the State says "We are going to do this job; it takes a very high amount," we have to say, "You will have to be less exacting; we can't pay for that out of the kitty we have. It is too high a cost." The philosophical problem is how much money we can take out of the common kitty to do a super job, when the other States are below. The theoretical answer is: Any superior efficiency that you can get within a cost that is average for the whole Nation on all functions—not on just one function as in the example of contributions that I have used, but all functions—or any extent to which you can improve your efficiency at a cost not exceeding the general average for your workload, we will accept. In fact, we will give you the money to do it, and improved efficiency will bring an award of more money to you, if it comes within the average cost of the States. But above that average cost, we must say reluctantly, you are paying more and probably taking more out of this kitty than is warranted, and we will even have to squeeze you down. There may be an actual decline in efficiency. There has been some decline in efficiency in the last year. We have squeezed some States to a point at which they have had to eliminate or curtail some essential activities.

This process, however, takes account of our best measurement of operating workloads. Now Mr. Lyle referred earlier to Alabama, which is not largest or the second State in his region in terms of operating workload. If we measured Alabama's grants by population, the State would get a lot more money. How many employers do you have in Alabama and to how many workers are you paying benefits? They are paying very, very few. What kind of overhead organization do you have compared with other States? In such terms, Alabama is smaller than Georgia, Tennessee, and Florida, and is a high-cost State; all our statistics for the cost of operations showed it should be compared with South Carolina. The Alabamans may not like it, but our scientific budgeting is correct. It is not perfect, but it is a lot better than any rough and crude measurement, such as the number of covered employees. These critics said, "Look at the number of our covered employees." But Tennessee was paying for three times as many benefits and processings as Alabama, and what we measure is the actual operating workload.

Mr. Lyle remarked that under the same formula, one State gets a budget and lives within it, and another State gets a budget and does not live within it. It is discouraging to the States that do a realistic job of cutting the cloth to fit the pattern and stay within their funds to see the basis on which supplementary budgets are granted. Some work should be done on that. Another point: Some State administrators feel that, rather than do a realistic budgeting job, they must request a big budget, to give the regional office an opportunity to trim. Mr. Clague continued with the second question: Do States have to pad? We should know when a State budget is sound and should spend little time on it. There was a regional meeting in South Carolina the other day to go over their budget. It is reasonable, below average cost, below last year's. I think the boys finished it in 2 hours. We don't wrestle with a reasonable budget, well justified, and necessary for the program. Our job is centered on a minority of the States, rather than the whole bunch. The spending this year arose from the peculiar difficulties of a cut of \$5 million. We had to do a battle-ax job in distributing the money. Therefore we arranged a set of cuts, which ranged from the low-cost State to the highest. Colorado was cut three-fourths of 1 percent. One State had a cut of 24 percent. The average was 10 percent. When a job is done on a mass basis like that, without having regional representatives sit in for a tailormade job, it stands to reason that we make errors. To allow for that, the Board decided to let the States spend as they needed. Some States tried to stay within the budget, and some didn't, because the cut was too drastic, and the Bureau itself would admit they couldn't take it. We hope to do a better, tailormade job this time; aside from a drastic emergency, our budget should not fail to mesh fairly well for all States.

Mr. Lyle said that WMC-UC relationships have been a headache down his way. In one of the most acute labor-shortage areas, claimants are not being exposed to work, because of the personal relationships between the two agencies. Mr. Neustadt proposed that we discuss the problem in the light of changes from here on, not the past. The European war is over and a shift in WMC relationships will be necessary internally and with us. Mr. Harper said that some States, where the rift is bitter, are putting requests for claims takers in their UC budgets. What will be the Board's attitude toward putting claims takers on State rolls in the local offices? Mr. Clague replied that they can do it. We

have a proviso that a person who spends half his time taking claims would be on the State payroll. Veterans' claims encourage the States to take the function back. The general drift will be toward setting up their own claims takers; USES in many places is very cavalier. An interviewer, trying to place a man, says, "You take that job. If you don't, we can't help you." Sooner or later an appeal comes, and the State is angry and has a case. If the relationship were good, it would be a minor issue. It gets built up into a gigantic issue. The biggest, said Mr. Harper. Mr. Clague continued: A few States are putting placement men in their budgets, because they say claimants are not being referred to less essential jobs. Fifty percent have never had a referral, because they are not referable to war industry. USES says they will refer them to less essential jobs, but they don't scout among less essential employers and consequently haven't any jobs. They say look for ads and apply, and people don't do that. Some States say they are going to have a few men who will cultivate the less essential employers to find jobs. Mr. Kasius suggested that the situation will change and this is a good time to open up questions. Mr. Clague continued. The main question is when is it the right time for States to drive to get the employment service back? They debate that issue over and over again. With VE-Day here, they feel this may be an appropriate time, but some are not quite sure. Have you seen the employer questionnaires that are coming out in North Dakota, for one? Nebraska, Mr. Lund added. These are questionnaires from UC administrators, Mr. Clague went on, asking employers "Do you want your employment service back, or do you want it permanently federalized?" The questions are loaded and worded around State rights. The majority of the employers are saying it should be taken back now.

The State men plan to put it up to the Governors at the coming conference. Their only question is the timing; should they wait until the end of the Japanese war or do it now? I know none who favors leaving it Federal. They interpret everything that happens in the USES as a move to block a fair consideration of its return to the States. They question whether they should hold that the new WMC offices are wasted, and refuse to sign the leases. The States are split 50-50 on that. Some will sign a lease on every office, no matter how many there are, on the principle that the USES will be returned to the State and they should be doing the leasing.

Mr. Lund said we must take central action to clarify this situation. Further delay will aggravate the problem and reflect negatively on the Federal Government. Can't the WMC set up some program to refer people who are not qualified for war work and are not acceptable to war plants, to less-essential industry, in a way that will dovetail into the whole economy in the coming quick turn of events? Mr. Neustadt replied that the WMC has issued a directive and had meetings of management-labor committees. Mr. Lund and Miss Woods said they knew of no directive. Was discussion on a local basis? Mr. Neustadt reported that WMC is making placements in nonessential jobs but not in class 1 areas. Mr. Clague said we must recognize that the WMC is a very decentralized organization with little central power. Local people decide whether they will carry out a directive. Mr. Hardy asked what the States should be encouraged to do concerning the additional USES offices; he understood Mr. Clague to say we will pay for them. Mr. Clague replied that we couldn't guarantee to pay for extension of claims-taking functions in these new offices because of that extension alone. Their claims are now taken by the USES, and the States may decide to take that function back. The least we can do is pay the same amount they paid the USES. The Veterans' Administration say they will pay for taking veterans' claims in these new offices. We will be pressed to pay for a person taking UC claims. Without enough claims to process, money may be wasted, but the States' budget argument is hard to counter. One office had three veterans' claims in a month. The States say, "You will not let us spend \$1; they are spending \$300."

Mr. Lund asked about training the claims takers. Mr. Clague replied that in some States the USES personnel have been trained by the UC administrators, and many liaison relationships exist. Washington State and Massachusetts operate effectively in working together. Elsewhere there may be very little contact. In one State the WMC director announced that the UC representative must keep out of the offices. We can't expect effective claims taking in such a situation.

Miss Engle asked if it is possible to get any assistance at a Federal level in resolving differences of opinion on the need for these additional 500 offices. The situation reflects not on State US agencies but on the Federal Government and general Federal planning. It is a major problem of bad public relations in the State, not for the UC agency specifically, but for the whole social security program and total Federal operations. The WMC regional director gave her,

as a courtesy, a list of the projected offices. The States say we don't want them there, but have no voice. WMC—State, regional, and Federal—comments that every office should be opened as planned. The public gets only a wave of newspaper criticism antagonistic to the whole Federal program. If the action is correct, let us have from Washington, from WMC—from which it should come—information to stop the rising tide of attack on the Federal Government. That concerns us more at present than the UC fight. Mr. Clague declared that the source of the most bitterness was that States felt these offices were set up without consulting them, they were handed a lease to sign. Some States, however, have worked into the setup. In Wisconsin, with 3 new offices, the State agency is in complete control of the situation, but in Indiana, 22 offices are added, and there is great bitterness. He further stressed the differences in salaries between UC personnel in some States and those who had left the State agency to work for USES.

Miss Woods added that a bad situation exists in Ohio and Michigan. Mr. Clague continued. The Bureau proposed to WMC to have joint regional or State meetings to discuss this program. Do you know of any such meetings? One was held in region V, but after the plans had been made, Miss Woods replied. Miss Engle said they had the news from an OASI field office and notified the WMC office. Mr. Clague went on to say that a coordinated State decision on asking for return of the USES would soon be made. Both sides will spar until some decision is reached. We are helpless until some decision on policy is made higher up. In reply to Miss Woods' question on the desire of USES to return, he went on to say that the thinking of 22,000 employees can't be ignored. There are differences among them. New York has a model law under which they could all be shifted back and could operate during a year while they were being reestablished on a State basis. Other State administrators take the opposite attitude; one has said that, as a matter of principle, not one is going to come back except those who have claims to State positions which they left when USES was federalized. Miss Engle asked if we are attempting to obtain a uniform national policy so that the transition will not wreck the unfortunate USES. Mr. Clague asked, in turn, how you get uniformity. States say, he continued, that the Social Security Board personnel standards block them, that these people didn't come in through the civil-service system. Mr. Altmeier pointed out that the Board recently agreed that our merit-system standards should not prevent their taking over USES personnel and working the problem out over a year's time. We believe that it shouldn't conjure up too many difficulties; they are State people, after all, and after the UC agency has looked them over, and their faces are washed, the attitude may change. I think when it gets right down to it, States will be realistic about it; they can take them back en bloc, in spite of our merit-system standards, and work it out within a specified period. Mr. Clague asserted that we have told States time and again about a blanket method of taking them back but they still say merit systems block them.

When the method of getting the employees under merit-system standards was queried, Mr. Altmeier proposed a qualifying examination, just as at the start. Mr. McCarthy said that was a good answer. Mr. Clague added that the veterans' situation is new. In Maryland, for example, an incoming veteran who passes the examination can replace any USES man if he gets on the civil-service list. Mr. McCarthy remarked that Illinois has had that provision for 20 years.

Mr. Lyle proposed further discussion of the GI program. As we see it, virtually two programs with somewhat different standards in benefit are in effect in the States. When GI Joe is again a civilian, what will he think of the type of benefits he will have to draw? Will the GI program be of benefit to UC in the long run, or a detriment? We think there is more liberality in paying veterans in some of our States; perhaps the same standards are not used. Mr. McCarthy asked in turn if public sentiment doesn't demand more liberality. Very often a veteran is not fit for work, no matter what type of discharge he has. Many break down very quickly after they get a job, but are criticized for getting benefits.

Mr. Clague replied that States can take care of a veteran without violating the principle of uniformity. The problem is that they are supposed to administer the standards of their own State law for the veterans. Mr. McCarthy added that the veteran is supposed to be well and available on the day he applies. If he isn't well, Mr. Clague replied, they can pay him sickness benefits. What gets the States down is the question of applying State standards to a veteran who is just like any other worker. Mr. McCarthy cited a case in which the

community resented failure to pay benefits to a veteran who had broken down but could not get his disability rating revised promptly. Miss Engle mentioned boys who had malaria and can't work. Mr. Clague added that, medically, many veterans are pension cases and should be handled by the Veterans' Administration as such. Pensions are delayed, so they are treated as unemployed and benefits are meeting the needs of some people who by no stretch of the imagination could be certified as available for work. Mr. Beasley commented that it is better psychologically for the veteran, if he thinks he can swing a job, to accept unemployment benefits, than to accept a pension, and be considered 15 or 40 percent disabled the rest of his life. In substance, that is the need for liberality in GI benefits. Mr. Clague replied that liberality is the rule. State administrators realize that the veteran's case is an apple of another color. Veterans are being paid under conditions in which the civilians are being denied.

In budgeting, Mr. Clague continued, for the current year we treated the veterans' budget as an additional amount, a sort of appendage to the basic budget. For next year we have handled it differently. The budget of a State can be considered in two parts, operating cost and overhead cost. We decided what UC operating costs should be, and the Veterans' Administration is free to decide how much they want in operating costs for veterans—what additional quality of administration they want. But on overhead we have a joint interest and so we split the overhead cost with the Veterans' Administration on an agreed formula, which is a matter for the Veterans' Administration and the Bureau to decide. Relationships among the Veterans' Administration and the UC people and ourselves are working satisfactorily.

Referring to a question by Mr. Lyle on the Veterans' Administration checkup, Mr. Clague said our administrative review goes through in a public manner, with participation by the State. The Veterans' Administration, on the other hand, sends in a special man who questions as many people as he can and then writes a confidential report for headquarters.

Mr. Lyle asked what is State practice in salary scales; a State in region VII has the lowest salaried PA agency and the highest salaried UC agency. Mr. Clague replied that we are trying to develop tests of State practice. We have had a loose relationship there. If a State could cite certain State agencies that had such and such a salary or travel expense or such and such a rule for purchasing, we accepted that as a practice in the State. Some of the States argue that if they can show that something is done in some State department, we should accept it. Another way is to get a certification from the State agency that a practice is in line with State practice, like getting the attorney general to certify what the State means. We have sometime said that unless a practice exists in the majority of State departments, we won't accept it. But sometimes a situation doesn't exist in many other departments—on interstate travel, for example. We are exploring the whole field and trying to regularize it.

Mr. Lyle remarked that the next topic on his list was State legislative sessions. Practice in region VII is to meet with the State governors well before the legislative session, taking the UC and PA representatives along. First, however, we have taken up with the State agencies, section by section, the Bureau's recommendations for changes in their law. In one State an interim committee, that meets 4 or 5 months before the legislative session, invited us to spend half a day with them. We discussed very pleasantly the State UC program, PA recommendations, and overall recommendations, and also talked about OASI extension to agriculture. He wished more legislatures had interim committee meetings.

Mr. Clague added that sometimes the UC agency is unwilling to propose anything fundamental to the legislature; often the Governor is more interested. Miss Engle remarked that when the agency is timid, the job is to build them up. After we have worked with them, responsibility for arriving at decisions and for carrying the ball in presentation to their own political organization seems fundamentally theirs in a State program. Mr. Neustadt said that is true, State by State, but in California this year the commission took the attitude that they were just administrators. Mr. Wrenn said that in Kansas the legislative council sits all the time. The regional office works with the State agency and with that council. Missouri is setting up a council. The region finds such councils very effective; the legislature relies on them. Miss Engle added that that method is stronger than presentation by a Federal group. Mr. McCarthy declared that councils deal with too many aspects of State legislation to give the concentration needed on our program. Mr. Wrenn replied that was not his experience. Your States are smaller, Mr. McCarthy replied, adding that his proposal in earlier discussion was for special interim committees, on PA for example.

Miss Engle said that in region IV the legislative program of the State agencies is presented to the governor by the State agency. If they ask, regional staff go with them to discuss it with the Governor. Mr. Wrenn reported that in Oklahoma the commission opposed the Governor's bill, so he fired two members. He had taken the Board's letter as the basis of his recommendations. Mr. McCarthy added that the Governor of Illinois included Mr. Altmeyer's language in his message to the legislature.

Mr. Lund asked for opinions on use of UC advisory committees for legislative purposes. In North Dakota where liberal legislation was passed this year, use of an advisory committee was very effective. The committee included representatives of business organizations, labor, lay people, and other interested groups and carried the burden of the legislation during the entire session. Mr. McCarthy remarked that region VI had two kinds of experiences. In Indiana the UC board, which represents labor, the public and industry made fairly liberal recommendations, but the policy committee of the Governor, which was steering legislation, rejected them completely. On the other hand, Illinois has a permanent advisory committee with three representatives each of industry, the public, and labor and whatever they agree on passes. Mr. Lund added that if such a committee sat not only during the legislative session but during other periods, one could go back to business organizations and do informational work that would help to clarify some provisions of particular business groups, if used advantageously. Mr. Neustadt declared that Utah uses a committee very effectively; it carries the burden of the legislative program, does a grand job on education, and is a model for other States that wish to try to galvanize legislative committees. He added that he was surprised by the extent governors supported our programs in their messages, but that they did not fight for them.

Mr. Lyle said he had listed the topic of State advisory councils and mentioned a council that had been hamstringing the agency. He thought that down his way proper use was not being made of the council. In nearly all, the employer group is in the ascendancy. Miss Woods added that in one State the advisory council is a waste of Federal funds. Mr. Neustadt remarked that this subject deserved time but fairness to the afternoon program required adjournment.

As chairman of the sixth session, Mrs. Woodward announced that her remarks and those of Mr. Huse and Mr. Wrenn would be made as brief as possible, because Mr. McNutt would be present at 11 o'clock.

Important considerations in public relations (Mrs. Woodward)

I am always delighted when the public-relations session of these conferences comes around, because I believe sincerely—and I am sure you do, too—that if our programs are properly and adequately interpreted, they will be understood and supported by everyone—from the mass of the people right on up to Congress. We must have this understanding and support, if we are to broaden the scope of our activities and reach all people, as we hope and plan to do. When business calls in for conference the men and women responsible for public relations, it is an important occasion; all the policymakers gather, because they want to know what they must do to reach their public; they consider their public-relations staff as the key to this situation. If public relations are so important to business, which merely deals with things that people want, how much more important it is for us who deal with a way of life for all people. The more sensitive we are to the reactions of people in the States and localities, the more realistic will be our policies. The postwar years will be significant for our program, and we must be fully prepared to meet them.

We depend on you men and women, more than you realize, to provide a two-way channel between the Board and the people. We must have this channel if we are to succeed in our public-relations program. Here in Washington we try to take the long view; but sometimes we wonder whether we are looking through the wrong end of the telescope—whether we have the right perspective or not. You can set us right on our perspective. In each of these meetings that I have attended, it has been shown that more emphasis should be placed on informational programs to solve our problems; a larger job than ever is necessary, as I see it, in the broad field of public relations. The recent OASI study of benefits lost through nonfiling or delay in filing claims, for example, gives evidence of the need for better interpretation. One-eighth of all the claims studied showed loss of benefits through delay in filing; on the average, 5 to 6 months of benefits were lost and a total of about \$112 per beneficiary, and the average primary benefit was reduced by about 62 cents. People delayed in filing claims for primary benefits most frequently because they expected to return to work, but the expectation did not materialize; ignorance of benefit rights was the most frequent reason for

failure to claim survivor benefits. Ignorance of the program was most common among lower-income groups. Those who are probably most in need of the benefits know least about them or how to go about getting them. Now that the Board has decided to recompute benefits, a wage earner will suffer no disadvantage by filing a claim as soon as possible; but what about the delays due solely to ignorance of benefit rights? That is one side of the picture. On the other side is: What do these people—and others who have heard about them—think of us? It doesn't take long for a case of that kind to get talked about—and, whether we like to admit it or not, it's a black eye for us. People will say that we have fallen down on our public-relation job, because we haven't made them understand their rights.

An interesting sidelight on the recomputation decision may help to sharpen our focus on the importance of public relations: When the Bureau of OASI recommended this step, the Board accepted the recommendations of its OASI experts. We then started to discuss ways to get the public to understand and accept this policy. The Board then decided, and rightly so, that this was a problem for our expert in public relations, and that Mr. Huse should give us his suggestions and recommendations. Do regional offices use their informational service experts in this way? I am sure that you have staff discussion of all important problems; but I wonder if you, as regional directors, always make sure that the man who heads your informational service takes part in discussions when policies are determined or when you act on policies established by the Board. Your IS representative is expected to know or find out for you the reaction of the people; he is your expert in public relations. He must, therefore, be in on your planning, so that you may have the benefit of his advice.

It is important for us to give close attention to our public-relations problems now while the program is young, because later on it will be much more difficult to change attitudes. We are operating a larger program than ever before and have fewer people with which to operate it. It is doubtful that we can get much more money to do this very important public-relations job, for in general Congress is reluctant to appropriate money for informational services. We have the work to do, however, and must do it—shortages notwithstanding. We shall have to find new methods, new ways of utilizing the personnel we have, so that we can reach out and give this information, and receive the information that we need to operate our programs. Job-methods training has been very successful in reducing wasted motion and wasted time, and our Board is a recognized leader in this field; but have we really tapped our main resources? What have we done in analyzing our larger relationships—between bureau and bureau, between bureau and region, and between region and region? Have we pooled our ideas and resources? Is there proper coordination of activities? I understand that some of you have been making joint studies on problems common to two or more regions, and have conferred with each other on problems of coverage of agricultural workers. I hope that later we can discuss this matter, because we want to know how it is working out.

The job of public relations is tremendous, but we must always remember that it is not the job of Informational Service alone. They can start the program rolling, but it won't pick up speed unless everyone is behind it. We have separate and distinct lines of responsibility but those lines are meant to be distinct and separate only as individual wires in a strong cable are separate. They must be woven to give strength and durability for a single job or purpose. Informational Service, the operating bureaus, the regional offices—with their different responsibilities—should work toward a common purpose. In public relations, that purpose is to get, as nearly as possible, complete understanding and support of our programs. The responsibilities of the regional and field offices are twofold. First, they interpret the Board and its programs to the people, in the localities where the programs operate. Second, they interpret the people to the Board—show how people are reacting, what they are saying, what problems are arising. This two-way channel must operate effectively from both ends, else there will be misunderstanding at both ends.

This responsibility for interpretation extends not only to an office as an operating branch but to each person in that office. All take part in the job of operating the social-security program—not only for the 8 hours a day when we sit in the office—but all the time. We wear the social-security label 24 hours a day. We are expected to know the answers at all times—inside or outside the office; whether we are heads of bureaus, regional directors, or file clerks, that responsibility follows us around. Is your regional office staff aware of this responsibility? Have you trained them to be so aware? It is of special, unique

importance for our people who are stationed near the grassroots of this country. Informational Service draws up plans, prepares bulletins, speeches, posters, articles, and what not—all designed to reach the people we are meant to serve. If we don't know what the people are saying or thinking, what their reactions are—then our attempts to reach them are little more than a shot in the dark. If we had a valid, continued poll of public opinion, we wouldn't be so completely dependent on the regional and field offices for analysis of public reactions. IS representatives have made an excellent start in reporting public opinion regularly, but I think that it is an informational job in which everyone should participate and which regional directors should stimulate. If we pool our individual reactions, we can be sure of having a more reasonable appraisal of public opinion, in which the factor of individual bias is reduced to a minimum. Staff discussions consciously directed at the problem of public relations, in the central office and in the field, will also help to make each person conscious of active participation in this important program. If we thresh out our problems in this way, before we commit them to memorandums and reports, we can focus more clearly on the main problems when we do set them down in writing. We will then have fewer—but more valuable—reports, with the problems pointed up clearly so that they can give us a firm basis for quick action. And we can also use our informational experts as they are intended to be used—not as targets at which we throw all public-relations problems, but as leaders in finding solutions of those problems.

At our last year's conference some of you criticized the Federal office a bit because we had not made as many contacts as we should with national organizations. We thought that criticism quite justified and have done several things to overcome it. It isn't enough to write letters or make a speech now and then to groups of people—I am thinking in terms of study programs, forums, group discussions and frequent articles in house organs. During the past month, Mr. Huse has done an excellent job in establishing relations with many national organizations, and others of us have used our opportunities to do the same thing. I shall give you an illustration of two.

Last January I attended a meeting of the executive committee of the National Federation of Business and Professional Women's Clubs, which discussed policy and program. We have never been able to interest that large group of women in putting social security on their study programs—in fact, they appeared afraid of getting mixed up in this "socialized medicine" business. The former president of the organization, a very distinguished surgeon, was opposed to our recommendations on health insurance and unwilling to have any of the other social-security programs discussed at their meetings. The new president has a different attitude and many other members recognize the importance of social-security programs. Before this January meeting a number of letters had been sent in by women who felt that we should have broader insurance coverage; someone asked me if I would like to discuss these letters. When I suggested that they give me their opinions first, they started out by saying that they were much interested in social security, and then gave me a very natural opportunity to sketch our program quickly, pointing up the stake that business and professional women have in social-security programs. After a short discussion, someone asked if the group should do something about legislation; I suggested that they would not want to take any steps toward recommending legislation until they had studied this program. My suggestion caught their interest and several said immediately, "We should like to have this on our study program and would be delighted if Mrs. Woodward would supply us with the material and be ready to give guidance to this part of our work." So, for the first time the social-security program is on the study program of this large organization of business and professional women—an organization with more than 80,000 members. Our study materials will reach nearly all these women. That part was only the spadework; Informational Service has prepared the outline for a study of social security, which will be offered to the national organization shortly—and which, we hope, will serve as the basis for studies by their clubs throughout the country. This outline is available for your examination if you have time.

Another contact which has borne fruit is one with the General Federation of Women's Clubs, consisting of more than 16,000 clubs, and a membership of more than 2.6 million. Its president has asked us to prepare material for them to send out to their clubs. Informational Service now has material in draft form for the eagle eye of the executive director and others. It consists of a speech with supplementary attachments; an article is to be prepared for the club magazine which reaches all members. I would like to have you glance over this

material and let us know whether it is down-to-earth enough and whether you think it will meet a real need.

I don't know whether Informational Service has yet done so or not, but it seems to me that once groundwork of this sort is laid, the regional offices should learn of the contacts and what has been done. It should not be a signal to "go after" the local clubs and high pressure them into studying social security, but should provide a means to offer regional office facilities and assistance. That, I would say, is one example of teamwork; it can work the other way around, too. If the regional office can interest a local branch of an organization in our program, we shall have an opportunity to reach the national organization. Teamwork can also operate between and among the regions themselves in working up a program or making contacts with farm groups or other groups which cross regional boundaries.

The public-relations program in any region will be strong or weak, and will stand or fall, depending on the attitude of the regional director. Some of you men and women are more public-relations minded, I believe, than others. I feel that we must all become more and more public-relations minded to carry the weight of this program. No matter how good the IS representative is, he is not and should not be in a position to assume the main responsibility of interpreting the program to the public. As I see it, he is an expert to assist and advise and help carry the program for you—but no one can really give the direction or chart the course in the regions except the regional director. Here in Washington we look to you—not just to the people who work under you—in this field of public relations, to give guidance to this most important phase of the social-security program. None of the programs can be as effective as they should be if you do not think of this as your top responsibility.

Planning ahead for informational service (Mr. Huse)

I want to underline my entire agreement with Mrs. Woodward's remarks on the role of the regional IS representative. He is there as a specialist to help you and the regional representatives with their work, but he can't do the job alone; I bespeak your interest and participation in the whole extremely important job of public-relations management in the regions. It is important to see the regional informational representative in his proper perspective.

The job of developing public understanding is nationwide; it has to be done throughout the Nation wherever there are people, problems, misinformation, lack of information, and misunderstandings. It is primarily a job to be done in the field by the whole staff of the Board. The job of public interpretation and public understanding is inherent in the job of administration. It is not a specialty to be set aside and left to an obscure member of the staff, nor is it something to be thought about every other Thursday after lunch. It exists constantly as part of the process of administration. The Informational Service, as I see it, is a unit of information which the Board has set up to assist other units of the Board in understanding public attitudes and, in the light of that understanding, to do the things that should be done to interpret the Board and its programs to the public. Those things fall into two categories. First, the adjustment of operations in such a way as to permit the best possible relationships with the public. The time-honored illustration is the telephone operator who is trained properly to deal with the public. The second is the output of information, and there Informational Service can be of help, can implement the line organization, the people who are in contact with the public all the time, so that they can do as effective a job as their efforts, plus the implementing materials, make possible.

We in Washington want especially the help of the whole organization in keeping aware of the climate of opinion in which the program is operating. In other words, we want to increase the scope and comprehensiveness and validity of our information on the attitude and understanding of the people throughout the country. I like to distinguish between public opinion, which is nebulous and difficult to measure and the process of compiling and reporting factual evidence of public attitudes and understandings. We can all make mental note of the factual indications of what people know and do not know and want to know and use these facts as the basis of motivating our informational program to meet these needs.

To divert for a moment, let me remind you of the nationwide observance in 1938 of the third anniversary of the passage of the Social Security Act and the meetings held in all parts of the country to focus public attention on the significance of the program. Now 1945 brings the 10th anniversary of the act,

and the suggestion has been made that this may be a good time to focus attention on the progress of the program and the value of the past 10 years' developments to society, to individuals, and to our economic system. Is this a good idea? What form might such a celebration take?

One of you expressed concern about our efforts to interpret OASI to the public, saying that most people are woefully ignorant of its provisions. Last summer Mr. Powell said to me that the most important job, as he then saw it, was to do something to meet the fact that there are millions of people throughout the country who do not know the provisions of the present program. We are trying to simplify what we say to the public about OASI, working closely with the Bureau. Parenthetically I want to say that there is the utmost coordination between the two in Washington and I think also in the field. Our working relationships with the Bureaus of Employment Security and Public Assistance are equally close and effective. Much of the fundamental work preparatory to what we hope to do in these State-administered programs has been accomplished, and I think field activities in the next 6 months will show the practical effects. Our program for OASI for the rest of the year is to emphasize a few simple things: Who gets what, when, and why? Who does not get what, and what it is they don't get? There is a rationale for going into the area of what the act does not cover. If we do not tell the limits of the present program, as well as what it does provide, millions of persons would be misled.

We must emphasize that the OASI program provides survivor benefits; there are hundreds of thousands of survivors who do not know there are survivor benefits. We have what we call the two-times-for-action program: When the wage earner dies, some member of the family should go to the nearest field office to check the situation, or when the wage earner is 65, he should go. Then we have the tell-your-family theme, to get the wage earner to tell his wife or some other member of the family what his social-security account number is or where he keeps his records, and to keep together such information as he may have from the Board and from his employer. The third theme, which perhaps can be stressed more in the future is addressed to the wage earner: Tell others; tell your friends. When the wage earner himself understands these few simple things, encourage him to pass them on. If we explained in detail the simple facts as to what the act covers but do not tell of the millions of persons who are not covered what they don't get, great segments of the population would be misled and effectiveness and efficiency of administration would be hurt rather than helped. Therefore the theme must be not only who gets what, but also who does not get what.

In the State-administered programs, unemployment compensation and public assistance, the job is very different. Our theory in unemployment compensation is that we must recognize the three levels of operation, and that the most practical and direct one to use in reaching people is the State agency. We hope to develop our skill in furnishing draft material to State agencies through the regional office—with the approval, comment and administrative imprimatur of the director and the unemployment compensation representative—draft material that equips the State agency to meet the advent of V-E Day and the reconstruction period. In this connection we have developed kits of material on the role of unemployment compensation in cutback areas explaining the workings of the unemployment-compensation program. In public assistance, we have not yet advanced very far in furnishing material to the regional offices which can be passed on to the States. Comments have come to us from State agency people and from 1 or 2 regional directors that material written in the Board is "to Federal" to fit State needs. We have the handicap of our Federal environment but are trying to overcome it, and we think with increasing success.

Mrs. Woodward made much too kind a reference to our contacts with national organizations; they have not been as many as we would wish. If in the next fiscal year we have the money, we shall be able to have 2 specialists—1 in informational work with civic and women's groups, and another a specialist in work with business groups. We already have a Labor Information Division, and are trying to round out headquarters staff to approach nationwide groups so that local units of those organizations can be approached successfully by the field organization in the informational program.

Mr. Powell remarked that he had suggested at the first session that we are going to have to spend much more money and put in much more effort this next year than in any year of the war. This 10 years of preparation may be thought of in one sense as preparation for unprecedented and perhaps unique demand on the system. It is quite conceivable that conditions immediately following the

war in all three of our fields will be such as we have not met before and possibly will not soon meet again, God willing. In public assistance the factors that have brought the curve of workload down are likely to be so changed that the curve will shift radically upward. We say that old-age assistance rolls have declined because economic conditions have been such as to keep people off the assistance rolls. It is conceivable that we shall have a complete reversal of trend in unemployment compensation. What Mr. Huse said about preparing material for informational work on unemployment compensation is extremely important if this program is to serve its purpose and people are to know there is such a program and what they must do to get what they are entitled to. To use the old cliché—they must know both their rights and their responsibilities. We cannot tell them just once; they have to be told over and over again if this program is to serve the working people of the country and serve them well. In OASI, half a million people eligible for benefits have not made application. They are likely to claim their rights at any time. If in the next 6 months or year we are to give people the kind of service we have set as a goal for ourselves, we must do a lot in telling them just what they are entitled to and how to go about getting it. It is too expensive to deal with people individually—or en masse, if they make mistakes and keep on making mistakes; it is too costly to try to correct mistakes after they have been made. We should have had enough experience in 10 years to enable us to tell people simply and effectively what this program is about. There is a considerable job ahead, immediately after this session is over and during the next 6 months or the next year; I want to stress the idea Mr. Huse proposed on using the 10th anniversary as a reason or peg to hang this new program on.

Mrs. Woodward remarked that it gives a valid reason. Mr. Powell continued. We started in the depression, we carried through a wartime, and we are approaching a time when the demand upon the system will probably be as great as in any period. Twelve years ago the job started; we have had 10 years of execution, and now comes the test. I hope that wisdom went into it and that the experience we have gained in 10 years fits us for what we are going to do. You will have to impress on State unemployment compensation administrators, if they do not realize it, the absolute imperative of giving people more adequate information. In the whole war period, there has been no information; they have no staff. Training of staff and better information are as essential as anything that the agencies, State and Federal, will have to do. How the job is done depends on the attitude of the people on your staff. We cannot stress training and education too much. There will be tremendous expansion of staff, particularly in State unemployment compensation agencies and a tremendous job of interpretation. I hope we can talk a little before we go on how the anniversary can be used most effectively as a stimulus for getting a real program of public understanding underway.

Mr. Kasius, recalling that it had been said that not much increase in informational staff is likely, asked if the supply of printed material will be more liberal. Mr. Huse replied that the field will have more printed material than in recent months. All the standard items are being reprinted in up-to-date versions. ISC 1 and 35, and Publication 15, Why Social Security? are going through the printer. Other publications are in process. Mr. Powell added that we have printing funds to do what is needed.

Miss Engle remarked that in planning new publications, direction of the specific publication toward use by large groups is very important. In developing material for State groups, the regional office reviewed all the informational circulars for their possible use by an adult education group. The experts in adult education thought that the only materials which fell within the reading and comprehension level of this group were three folders on OASI. They went through public assistance material carefully and pointed out that the terminology, the extent to which a concept was presented in conjunction with 3 or 4 others, without time to develop them, ruled them out. We were forced to the conclusion that all our material falls above the level of more than half—perhaps 75 percent—of the group with whom we consort as clients. Tailoring our material to the requirements is a major need. Mrs. Woodward added that this fact was brought out also in requests for materials from some of the national organizations, which asked for simple material in lay language.

Mr. Lyle asked Mr. Huse what kind of unemployment compensation material would be issued. National material, while interesting, does not hit the spot like that dealing with a particular State. Mr. Huse said he did not now have in

mind any new informational leaflet on unemployment compensation because we have a pretty good one in general terms, though it is not adapted to specific situations or specific States. From the Federal office it is impossible to tell people how unemployment compensation works in a State. The best we can do is to give the State agencies material showing general methods of presentation, leaving it to them to adapt it to their State law and methods of administration. It is impossible for us to attempt to write material for specific States. Mr. Wrenn questioned whether it is a function of the Federal Government to interpret State law. Miss Engle replied that we have a function to assist if we have the stuff. In region IV, help was given to one of the State agencies in developing a folder on public assistance that proved tremendously useful. Most of the agencies in the region turn to the regional representatives for advice and assistance on unemployment compensation material. Mr. Huse added that the secret of Federal effectiveness in relation to State-administered programs lies in developing the working relationships in the regional office and between the regional office and the States that will make the States willing to discuss informational matters with the IS representative and will place him in a position to be in contact with the States; we mustn't work in isolation and think the States ought to do something more effective than they do but never get down to the brass tacks of helping them.

Mr. Neustadt said that he thought the highlights of public interest will be on the emphasis to get full employment and on veterans' benefits and that he would like to see our informational activities tie in social security as a part of the overall, greater effort—not just shout about our program. Mrs. Woodward said she thought that a very good point, adding that we should also take advantage of the present interest in an international security organization to stimulate greater interest in social security as a part of the international program. People want security against aggression, and when the next meetings begin to build up the social and economic features of an international organization, we want people to think in terms of the United States having a program of social security along with all other nations in the world. At UNRRA meetings, representatives of other nations have been thinking constantly of how they can reestablish their social insurance and other programs quickly. We should take advantage of this wave of interest to have our program considered, as it is, a part of the whole international picture. Mr. Neustadt remarked that Sir William Beveridge is the best informational service man in the world. We should follow his example. Mr. Harper asked about the possibility of a new up-to-date film. Mr. Huse replied that the question implies that films should be used. Good films, Miss Engle added. Mr. Harper said he assumed they would be good. Miss Engle wondered if that could be assumed. Some other films have been far superior to some of those we have been able to get. Unless films are good, they entirely destroy the usefulness of the interpretation. A film should not be just informative; it should be moving emotionally. In other words, Mrs. Woodward added, if we haven't the money to do a good job, don't do it.

Field views of public relations as a function of administration (Mr. Wrenn)

We assume that any governmental organization that has a social program such as ours to administer must inform the public of its rights and obligations under that program if it is to administer effectively and efficiently. Our public-relations program has gone beyond the stage of preparing press releases and radio script. In region IX we have come to the point at which we must consider a public relations program in all its implications for our approach to the job. We found in our 4 agricultural States that we have an urban population of 4 million and a rural of 5.8 million, which constitutes a problem in itself. In our planning, we have used as a guide Kipling's famous lines:

I keep six honest serving-men
(They taught me all I knew);
Their names are What and Why and When
And How and Where and Who.

We have set out our objectives and method of approach accordingly. Public-relations activities in region IX stem from the 6-month operating plan, developed in late 1943. Out of it came initial contacts with the Arkansas State Department of Education which resulted in a distribution of the Handbook on Federal Old-Age and Survivors Insurance to all high schools in Arkansas, accompanied by a letter from the State superintendent of education and one from the regional office of the Board. At about this time our attention was called to textual material on OASI, UC and, PA, used in the diversified occupations educational

program in Missouri. A plan was developed to give field offices full information for a contact program with diversified occupations classes. Following this lead, we got in touch with the State superintendent of education and at his suggestion reviewed some 50 or 60 high-school textbooks in American government, civics, social science, and current American history. Material on social security was woefully lacking.

Expanding the program for students in the diversified occupations classes, we brought our plan closer to all high-school students. Part of the regional public-relations plan has been a program directed specifically to high schools, particularly to the junior and senior classes. Field-office managers feel this is one of the best outlets for information on the OASI provisions of the act. The type and caliber of questions asked is high. Interest of school people is increasing.

During this period, the public-relations plan for the region was revamped, with more specific objectives. By letter and by personal visits, contacts were made with a number of farm organizations and farm groups, including the State directors of extension service, Farm Bureau federations, and farmers' cooperative organizations. Through later contacts, we were able to reach farm people through the Farm Security Administration's county meetings of agency personnel and through them, the clients of the Farm Security Administration at the annual farm owners borrowers meetings—this last only in Arkansas. New outlets are being sought through the farmers' cooperatives in conjunction with the Farm Credit Administration. Additional farm outlets were through the Oklahoma Farmers' Union, the Kansas State Branch of the Central Verein, the Agricultural Extension Service, and the Missouri Farmers' Association.

Having learned of the interest of the Catholic Church in the rural life program originally developed by the bishop of Kansas City, at his suggestion we talked with the bishops of the dioceses of Leavenworth, St. Joseph, Salina, Wichita, and Oklahoma City, with a representative of the bishop of Little Rock, and with the archbishop of St. Louis. On their advice, and with the collaboration of Mr. Lund, we pursued the matter further in discussions with the executive secretary of the Catholic Rural Life Conference, the bishop of Bismarck, N. Dak., and a representative of the bishop of Fargo, N. Dak. Out of these and subsequent conferences on the agricultural program has grown an expansion of our school program to encompass Catholic high schools and colleges. One unusual approach occurred in carrying out our program with church people. We were seeking ways of implementing our school program and, at the same time, were developing access to the several agricultural groups. At the request of the bishop of Wichita, the regional IS representative, the regional OASI representative, and I were invited to participate in a series of Deanery meetings at which there were special sessions for laymen. We spoke at meetings of priests, sisters, farmers, and others, and also at the annual meeting of the Kansas Branch of the Central Verein—a Catholic organization of farmers. The bishop in each instance devoted his entire time to a discussion of social security, a most unusual proceeding. Our appearance at such a series of church meetings as laymen—and particularly non-Catholic laymen—was unprecedented.

We have made systematic contacts with chambers of commerce, civic, women's fraternal, veterans', and agricultural organizations, and with labor groups. Field offices were informed of these contacts for their guidance in continuing programs with them. Contacts also were made with other church groups, including the Unity School of Christianity, the Methodist Quadrennial World Conference in Kansas City, the Church of the Nazarene, the Episcopal bishops in region IX, the Jewish church, and numerous members of the clergy. The regional office also instituted contacts with 167 colleges and universities and received an expression of interest in background material and the development of a syllabus. Subsequently we arranged to make available to the colleges and universities such materials as were available in the regional office and offered the services of Board personnel for class discussions. Again the response has been great. As a result of the work we were doing with one of the field-office managers, our poster project was expanded and copies were made available to all field-office managers. Requests for sets of this material are still increasing; many employers indicate their wish to use them. A St. Louis corporation manufacturing aircraft not only wants to post the bulletins in 45 points throughout their plant but also to run the material in their weekly house organ. In developing our regional program and following contacts with numerous persons in St. Joseph, we attempted an initial adventure in the conduct of a number of institutes during a week of concerted informational activity. This program was based on studies of loss of benefits, which were originally instituted in region IX.

The regional public-relations plan calls for continued contacts with all organized groups within the region, carrying the field-office service closer to the individual, attempting to inform the worker and the worker's potential survivors of their rights under the program, and creating an awareness of the program among persons not now covered. To this end, the regional office will have made approximately 10,000 contacts with organizations in the 4 States and will have attempted to create a continuing service to these organizations, as well as to schools and colleges. If the Social Security Act is expanded, the initial contacts will have already been made to explain the new provisions of the law and it will be much easier to carry that job forward. The ready acceptance of the various groups, when approached, indicates a willingness and desire to be more fully informed regarding their existing or potential rights under the OASI program and for additional information regarding the whole Social Security Act as it may affect them or the members of their families. According to a report of the Bureau of OASI for the quarter ending March 31, 1945, there was a 36-percent increase in benefit awards over the same period of 1944 in the country as a whole; in region IX, the increase was 49 percent. For every 2 claims taken in the first quarter of 1944 we took 3 in the first quarter of 1945. Several conclusions may be drawn, but the fact remains that, with our stepped-up public-relations program, in an area with a predominant agricultural population our claims figures increased. With that goes an increase in public understanding. Our public-relations plan is paying off.

The way in which this has been done is also pertinent. Our program with the American War Dads resulted in filing of claims by many members of local groups; in a number of instances, benefits had been lost. Ingenuity of field-office personnel has resulted in such actions as contacts with convalescent hospitals where many old people are treated. One such contact resulted in 15 claims that might not otherwise have been filed. Screening the 504A cards in field offices to discover eligible wives and widows has resulted in developing several hundred claims in region IX. Working with the personnel people of 1 Government war-industry plant disclosed 421 persons aged 65 or over who were in jobs not covered by the act. Information on this group was made available to the field office and the persons concerned, of whom 40 were receiving benefit payments. Sixty new claims were filed; about one-fourth of these claimants had lost from 20 to 25 months of benefits.

Sometimes what we believed a poor approach turns out to have public appeal. Because we have no Spanish newspapers in our region, we recently furnished the field-office managers with copies of a series of six short articles in Spanish, suggesting that high-school teachers of Spanish might be interested. We thought it might be used in some isolated instances, but were amazed at the response the field-office managers reported. We have requests for similar material in French and German and additional material in Spanish. We are now working on material for typing and shorthand classes for business schools, which must be carefully prepared as to number of syllables, strokes, and so on, per minute. Several high-school principals want to experiment with this. The intent here is to inform, indirectly, students who soon will enter the labor market concerning their rights and obligations under the act.

In carrying out the regional contact program, after our experience with Farm Security Administration meetings, our IS representative arranged a meeting with the Farm Credit Administration. While no immediate results from this source were forthcoming in our efforts to acquaint farm people with OASI provisions, a significant outcome may be noted. The 1,900 local farm-loan associations and the 500 local farm-production credit associations, employing a total of 4,000-6,000 people, have petitioned for coverage under OASI. They are excluded from our system as instrumentalities of Government and yet are excluded from civil service because the employees are not Government employees.

In the past year or so we have concentrated on OASI. Our public-relations program now has reached the point of laying more emphasis on UC and PA. A realistic public-relations program on UC has been prepared by the regional IS representative in cooperation with the UC and PA representatives, in order to develop so far as possible a common approach to problems common to both programs; action in this field will be undertaken very shortly. We have had to meet many problems, of which the greatest, that of budgeting, still remains to be solved. Suggestions for a PA program also have been prepared. It remains to put them into operation.

Mrs. Woodward said that she was delighted that Mr. Wrenn's excellent report was in a form to keep and profit by. Mr. Bigge said he wondered if the infor-

mational problem in UC isn't a little different from that in OASI. Is it likely that as many people who may be eligible for UC benefits fail to know or will not find out about their rights as in OASI? Perhaps it is more a matter of interpretation to make State agencies and the community conscious of what the program is, what its objectives are, and how it ties in with USES, rather than to acquaint the workingman with his rights. Mrs. Woodward said she thought that an excellent point. Mr. Neustadt remarked that while benefit claims increased about 500 percent after a west coast shutdown on war contracts, at least 5 times as many persons have left employment as claimed benefits. We do not know where they have gone; they don't report to any of us. Mr. Bigge said that had been true a year ago and he thought Mr. Bryant was convinced, after investigation, that they had found other jobs or had gone back home. Mr. Neustadt replied that we just don't know.

Mr. Huse said that he thought Mr. Bigge's point undoubtedly true. There are more or less automatic ways to channel information to the worker, particularly when he becomes unemployed, but developing community understanding, and hence support for the UC program, is important. During recent months State administrators have seemed loath to publicize their programs at all because of the bitter criticism that unemployment insurance is being paid to anybody in a tight labor market. Recently a Washington reporter told us his paper had information from numerous cities (which, incidentally, boiled down to one—Buffalo, N. Y.) that people were leaving jobs and taking vacations on unemployment insurance. Was this true? We did not think so, and we made available what information there was, including some facts the Bureau of ES had on some key cities. We put him in touch with people in the Bureau with the result that the paper used a story with as good an explanation of why benefits were paid now as we could want. This business of interpreting the goal of UC is a really important point.

Mr. Harper said he thought region IX's work with high schools and colleges extraordinarily significant. Were journals of State educational associations useful in disseminating information? They reach every teacher in the State. Mr. Wrenn replied they had not yet used such journals. Recently they reviewed three new textbooks approved for use in Kansas City schools, going over the references to social security and finding a conglomeration of misinformation. This is a field in which we can do something constructive. Mr. Hardy reported that Ginn & Co., who distribute material throughout the whole country, sent material for a new textbook to the regional office. It contained misinformation and old material. It was revised; they have sent in an appreciative letter because the errors would have meant a substantial loss to them. Mrs. Woodward remarked that the fact they asked for help was evidence of good public relations. Mr. Harper said it would be a good idea to make contacts with publishers. Mr. Wrenn added that the superintendent of education had told him that the best way to correct mistakes is to contact publishers, who assume responsibility for accuracy and would welcome information. Mr. Huse said that the IS representative in region I is to report his recommendations and experience in such activities with the idea of sending out to all regions a factual report on how to go about it. A book on commercial arithmetic that came to the attention of the chairman had many errors in a section on social security. As these textbook situations are brought to our attention, they get corrected, but the suggestion of a contact program with publishers is extremely good.

Mr. Mitchell asked Mr. Wrenn if the regional office had made contacts with all 10,000 organizations in the region. "Not personal contacts," Mr. Wrenn replied. We make the initial contact and furnish the information to the field office organization. "When you say 'contact,'" Mr. Mitchell continued, "do you mean a program or information or material available for distribution?" Individual letters, Mr. Wrenn replied, with respect to their particular area of interest. Miss Engle said region IV used the reprint of the Board's annual report in contacts with organizations, using their few copies of the complete report with colleges and universities and major organizations, and opening up requests for material they were wholly unable to supply.

Mr. Huse remarked that there have been several suggestions, particularly from region IX, that we publish a document of some sort for use in schools, approximating a textbook but smaller, and that we get out the syllabus of a college course. Several years ago similar suggestions were made; such a publication was discussed by the Board. The conclusion was that Informational Service should not furnish schools and educators with specific teaching

material; that was up to them. We could encourage their interest and furnish factual information but should not take the next step and offer organized teaching materials since we might be accused of propagandizing in the schools. It was held that any experienced teacher would organize his own material. Has recent experience thrown light on this point? Should we publish teaching material at various levels? Miss Engle suggested that our own material should be written in a form to be useful for teaching. She thought we would have to employ technical staff competent to write textbooks. We do not now have current material to give them to use in organizing their own stuff. Mr. Wrenn said that all he was giving such people is the information from Washington about the act, and a syllabus prepared by Mrs. Eveline Burns for the National Planning Association. We aren't giving any philosophical material in an attempt to formulate opinions about social security. Mr. Hardy remarked that in the past year he had lectured at Boston University, Boston College School of Social Service, and at Amherst in combined classes on economics. Mr. Wrenn said such engagements couldn't be avoided.

Mr. Kasius reported that a series of meetings had been held recently with members of the Council of Social Studies in New York City. The first suggestion was that we might want to organize pools of teaching materials, but when we got with the executive group, there was definite feeling that they preferred to keep matters on the much more informal basis of conferences. One conference was reported in their bulletin and the regional office had several inquiries for materials. Then we had our problems as to what material would be more suitable for teachers, because some indicated that they wanted material to hand out in classes. Mr. Wrenn said perhaps schools in region IX are different. Many really take legislation establishing governmental organizations and analyze the objective of the particular organization. Miss Engle said that was done in many schools. In region IV we have had meetings with the social science faculties of several universities and with the secondary schools and have found that additional material would be useful. We found in some that the Social Security Bulletin was entirely unknown to the library. Mr. Huse asked if a bibliography would be helpful. Mr. Wrenn said there was a good one in Mrs. Burns' Discussion and Study Outline on Social Security, published by the National Planning Association.

Mrs. Woodward asked what had been done in region IX about county boards. In at least 26 States, they are the first line of community support, of community acceptance or rejection of PA. She wondered if the States do not need to have one person who is a specialist in working with the county boards to give assistance to the field staff and on occasion to the county directors in developing maximum usefulness, both to the community and the program. The county board interprets the community to the agency, as well as the agency to the community. Perhaps the Informational Service should have a specialist in that area of operation. It is not public relations as we have thought of it functionally, but involves different techniques, something in the way of organization as well. Mr. Wrenn said region IX had not done much with PA. He agreed that there should be a person at the State UC and PA offices, but there is some difficulty in convincing agencies they should undertake such a program. They say in PA, "We don't want to publicize our program." In UC, they also don't want to publicize, overlooking the fact that wage-records operations have materially increased during this period, so actually there is a balance in UC operations. State agencies have an obligation to inform the public of their programs. One of the best statements he had seen on that came from a county director in Michigan, on which region IX is building a public-relations program for PA. Miss Engle reported that North Carolina has an excellent manual for county boards, recently developed, which is really a discussion of their administrative and public-relations responsibilities. That approach is a part of the administrative relationship between State and local offices. Mr. Wrenn remarked that any agency that has bad public relations is heading for trouble.

Remarks of the Federal Security Administrator

Mr. McNutt joined the meeting. Mrs. Woodward remarked that we are always delighted when our Chief can be with us—part of his family—but particularly today as the rumor of VE-Day has come. We all welcome this special opportunity to salute him for his wonderful part in bringing this victory so far. Mr. McNutt replied that he did not come to make speech but to talk with the regional representatives, trying to answer questions and perhaps asking some.

Mr. Altmeier remarked that the question of the operation of the USES had come up several times. Mr. McNutt, saying he thought his ideas had been pretty well explained both publicly and privately, quoted a question from Frank Bane: "When do you think the employment service goes back to the States?" and his answer, "Never." Federalizing UC would involve a great many things that continued federalization of the USES would not; UC would be quite a job. With presidential support in this particular period, there might be a chance for a pending bill on the USES to pass; it is a simple, clear-cut bill. The only change we would make in it, as a matter of fact, would be to assure that all those who are affected in the USES would come under the Classification Act of 1923. The fundamental principle is that employment or unemployment is not a State problem; it is a national problem and depends on the national economy. Nothing will change that. As Governor, he had set the employment service up in his own State; if he were a Governor now he would not want it.

Mr. Altmeier asked about the additional offices that WMC is setting up. Will they be different from the others? Will they serve the public generally? Mr. McNutt replied that the expansion is due to the increase expected from ex-service-men. How fast that will come, nobody knows. Officially, the War Department has announced the Army will be reduced to 6,968,000 men; it now has about 8.3 million. There already have been 2 million discharges from the Armed Forces. Probably the load will not be tremendous at any one time because units have to be reformed and prepared for service in the Pacific. First they will select men who are entitled to be discharged. Then reassignment of others has to be made, and they have to be equipped and retrained, when necessary, for a different kind of warfare.

Miss Woods asked about relaxation of manpower controls, which will have a direct effect on UC. Mr. McNutt continued: We believe that group I areas will come down from 168 to 22 by the end of 3 months, and perhaps to 20 at the end of 6 months. Of course, that is contingent on what procurement agencies do. How fast the cutbacks come is not a matter of our making. We have urged an orderly reconversion in every way we could. We will continue to have some tight spots. There are some extremely tight spots right now—notably textiles, lumber, certain parts of the munitions program, forges and foundries, shipbuilding—even with as many releases as there are being made today. Mr. McNutt said he would like to get rid of the controls as rapidly as possible. A proposal has been made to resume the open ending of the CMP (control materials plan); we objected, thinking they should retain their controls as long as we retain ours, because they are hooked up together. Our fear is that if they end the controls of CMP, people—for example, in steel—will sell to their best customers, and these will be their largest customers, and they are likely to be in our toughest regions. We calculate that UC beneficiaries will rise from 800,000 to 2 million by the end of 3 months after V-E Day and will drop to 1.3 million during the next 3 months, and then rise, by the end of the calendar year after V-E Day, to 2.1 million. Those are only estimates, because we do not control the manner in which the procurement agencies work. They simply tell us and we try to operate accordingly, because we are really nothing but a service agency. If that is the situation, it will not be bad. Certainly, it will be much better than it was before Pearl Harbor or before 1940. We could stand unemployment of 2.1 million without any serious effect on our economy, and it wouldn't place any terrific burdens on UC. Of course, some aspects are disturbing—for one, how we handle people who have been in warwork, occupying jobs far above their actual skills, and who, because they are at the bottom of the list, will be let out first. When they apply for UC and are offered a job at what is probably their actual level of skill, they are likely to refuse and say they have proof that their skill is higher. We must have the courage to tell these people that their skill is what it is and not the job they once had while labor was so short and they were on a single operation. Many people who call themselves mechanics have had a single operation to perform; they are not mechanics, never have been, and probably never will be. A drop from \$1.25 an hour to 80 cents an hour will jolt them considerably.

Mr. Neustadt remarked that there will be a further cutback by the loss in working hours and overtime pay. Mr. McNutt agreed. FSA and WMC, he continued, were born and reared and have lived in grief, and we might as well accept that as our position in life and go along accordingly. We have to have the courage to do these things. He questioned Mr. Neustadt in turn about a group on the west coast that is said to be milling around after discharge. People keep telling us that they need about 14,000 additional workers in the bay area, and that many, if not more, are milling around there now. Mr. Neustadt replied

that one difficulty is that the Navy's standards for employment are much higher than specifications in shipyards. It is a mixed picture. Efforts to get rid of the colored people and the Okies are involved, and also housing problems. Mr. McNutt added that proposal had been made that WMC request from Congress funds to transport those people home. Some 4.2 million workers have changed locations during the war, and if we undertake anything of the kind, where would we draw the line? Secondly, would Congress be willing to pay that bill? And, thirdly, Mr. Neustadt added, will the people want to go back where they came from? Mr. McNutt said he thought the problem would be less difficult in the Seattle area than in Portland and in San Francisco, and certainly in Los Angeles. What about San Diego? Mr. Neustadt replied that it depends on the airplane cutbacks. The primary industries are airplanes and the Navy. Navy action may depend on the speed with which they get to making repairs in the Philippine Islands and ship repairs in the area of operation. Mr. McNutt remarked that less repair work than was expected had been required despite losses in Midway and the Coral Sea.

Mr. McNutt then asked: What about community war services? Mr. Wrenn asked did he mean should it be continued? Mr. McNutt said we could ask for it on the ground that we need it and want it continued. Mr. Wrenn remarked that Congress attempted to knock out recreation last year, but this year we have the same thing, with a continuing staff, under another name, social protection. Mr. Neustadt asked if the discussion included community war services as well as social protection. Mr. McNutt said he was talking about community war services as a whole, including recreation and social protection. Mr. Neustadt said region XII believes that the two programs should be continued for the duration of the war, and he would like to have them kept in miniature after the war as a special branch of FSA recreation, not carrying on any activity in the field but acting as a regional phase of education—collecting material and inspiring the many cities and counties which have recreation programs of their own. We would like, he continued, to think of social protection, as liaison between the other branches of service—Public Health Service and the Department of Justice—with only such activities in the field as might be needed in one spot or another. In community war services, we believe that, in general, research will dwindle as the program dwindles.

We see our own activity in that particular field dwindling right now, Mr. Neustadt continued, but the regional council has been very real since January 1. We have divorced it almost entirely from CWS. The regional council is not advisory to anybody but it has genuine validity and it will go on irrespective of administrative orders or executive orders. Mr. McNutt said he thought it would be very wise to proceed in that fashion. Mr. Neustadt added that he hoped that CWS will gradually become FSA. Mr. McNutt replied that it is contemplated that CWS will disappear as such and be absorbed by the permanent activities of FSA. Miss Engle remarked that the strength of the council had surprised all in region IV who have had anything to do with it, as has the persistence and the interest of top officials from all agencies in discussing problems which frequently fall outside the realm of the CWS program. It is a curious and very interesting development that might be expected when we see at how many points each agency touches others without knowing much about the program of the other. Region IV would be distressed to have too great a cutback in the social protection program because of the large number of Army hospitals in the region; problems in and around the hospitals are becoming exceedingly serious.

Mr. McNutt declared that everyone will have increasing problems of this kind, especially if the Armed Forces carry out the plan to bring a large proportion of those who are going to the Pacific theater to the United States for a 30- or 21-day furlough. That would also mean training units here again. The movement will be from both coasts, partly through the Panama Canal. Probably an effort will be made to relieve the west coast as much as possible because of the activity there because of shipment of supplies. We may have even greater problems on the social protection side during this period. Miss Engle added that the attitude of the police toward men who have been overseas is wholly different and there is by no means the discipline there has been in the camps. Mr. McNutt replied that discipline on the battlefield is naturally quite different from coercive discipline. After the first flush is over, they may get back to garrison discipline. Of course, from 1½ to 2 million men will be discharged.

Mr. Altmeyer asked if manpower controls will be maintained only in class I areas. Mr. McNutt replied he thought class I and class II. Mr. Altmeyer asked if this step was to be recommended by the local labor-management committee.

Mr. McNutt said that at least at the outset it probably would be kept as a national policy. Mr. Lyle asked about shipbuilding in the Southeast. Mr. McNutt said he thought it would go out to a considerable extent. If so, the Southeast should be able to help out on pulpwood and textiles, but it will be hard to induce a worker from the shipyards to go back to textiles because of the differential in wage rates. That shouldn't last too long, however, if the jobs are there and these people have sense. Mrs. Woodward said that closing the shipyards would be a blow. Mr. McNutt replied that there is no question about its happening. The question is what to do with the ships we now have. They will need shipping for transfers of troops and supplies; the logistics of the Pacific will be an enormous job compared with what we have had before—a much longer haul than the English Channel or even down through the Mediterranean.

Mr. McNutt again invited questions and Miss Woods remarked that in talking about information service after VE-Day, the meeting seemed to agree that there should be a joint program for UC and USES. Mr. McNutt said he agreed and thought it could be worked out with the regional WMC offices. In WMC, national informational service has been one of the most difficult tasks any agency has had. Miss Woods remarked that she did not anticipate any difficulty from the WMC regional office, but in some States there is a distinct rift between USES and UC.

Mr. Harper referred to earlier discussion of the value and effectiveness of advisory councils, with conflicting viewpoints of some who believe that they could be used effectively and others who thought them reactionary in character. Mr. McNutt replied that his own feeling is, use them if you can, and if they are not useful, let them alone. He agreed with Mr. Neustadt that the labor-management committee had been a tremendous asset, adding that not many good things come out of war, but this is a demonstration that management, labor, and Government can work together. We were the first to start it and suggested the idea that came out finally from the United States Chamber of Commerce from Green and Murray.

Mr. Powell remarked that he took it that USES activities will have to change rather rapidly and radically. They have been largely engaged in handling controls and servicing war industry, but won't they soon have to turn back to their prewar practices of surveying employers and getting jobs wherever jobs are. Mr. McNutt replied that he did not know how soon that will come. Perhaps within these 3 months, but he doubted that; probably we are in for 6 months of trouble. Mr. Neustadt asked if WMC would have enough money to retrain staff to serve the less essential employers and place people in their own capacity—an interview job. Mr. McNutt replied they would undoubtedly have to do such retraining. Requests for funds for a general program for training and retraining workers were cut out of the appropriation.

Mr. Powell remarked that there had been earlier discussion of antagonism in some places between the WMC State director and the UC man in the State. UC says the USES people are so preoccupied with their own affairs that they can't apply the work tests and can't find jobs for UC claimants. Probably the situation is nobody's fault or there is fault on both sides. But as soon as war contracts peter out or cutbacks begin, the million men you mentioned will file claims and the UC agency will have no machinery through which to get jobs and so conserve UC funds. Mr. McNutt replied that he feared that the difficulty stemmed from what he considered an entirely unjustified and illegal activity of UC in trying to do something about legislation; they have created much of the difficulty themselves. If they would behave themselves he would assure them that the USES will. If UC attends to its business, not to WMC's, there will be proper coordination between the activities, but there shouldn't be any of the backbiting or the activity that has been going on here on the Hill, mostly at Government expense. Mr. Bigge asked if we can't expect naturally that the USES would look to nonwar industries to place people as soon as the pressure in war industries slackens. Mr. McNutt replied that the USES function has been to supply demand, but there now will be more and more placement except in certain spots. Regional recruiting in textiles is to begin immediately now that textiles have been raised to priority 3, the top civilian priority.

Miss Engle declared that part of the recruiting for textiles in region IV had been among released people who could not handle heavy textile machines. The listed requirements seem to bar use of disabled veterans. It seemed as though an effort was being made to eliminate people, partly by the union, partly by employers. Mr. McNutt replied that he thought the physical requirements not extraordinary. There is, of course, a question as to what is going to happen to

the distaff side of the labor force. It is now 18 million; normally it was theoretically 15 million, but probably actually less. How many women are going back to domestic tasks? How many have been influenced by a patriotic urge, because they had sons and husbands in the service and had to work, and will go back without being released? How many will go back voluntarily? He guessed at half, but that is merely a guess. Under the Selective Service Act and GI bill of rights, returning servicemen have many rights. Somebody will be shoved out. Who?

Mrs. Woodward said the answer would depend on how nearly we can provide full employment, because many women who have participated in the war effort are in families that have had a substandard living in the past. Now they have found out for the first time how well their children get along with enough food; the whole population has been better fed than ever before. Our employment offices should not fail to give every consideration to women who sincerely need to work; a way can and must be found to utilize their services, though perhaps not in the same way or at the same salaries they have been receiving. Certainly we cannot solve the problem by forcing out women who need to work. She hoped that plans for USES will see to it and there are counselors who have the necessary background to tackle this problem to see that not just the "no" answer, but consideration, is given. Mr. McNutt said he thought there would be no restrictions. If there are pressures, they will come from Congress itself. If there are too many heads of families unemployed, that will be another situation. We saw that at its full force in 1933-34. Mrs. Woodward said that people hardly believed even then that women needed work. WPA employed some 400,000. Many more needed work, but this number were able-bodied. Mr. McNutt asked if Mrs. Woodward was arguing for the complete emancipation of women. As long as we consider men the heads of families, they have certain responsibilities as such. But it is more an individual problem than a problem of class. It remains to be seen how many women return to domestic pursuits. Mrs. Woodward said that she hoped that in any new offices established and in plans for USES, some definite provision be made to take these problems into consideration, because they will be there. Mr. McNutt agreed.

Mr. Bigge referred to Mr. McNutt's mention of a rather sharp increase in unemployment in the next 3 months. Mr. McNutt replied that we have nearly a million unemployed now and a rise of another million in a labor force of 52 millions is not much. The pendulum swing—upward and then down, then back again—is due to forecasts of production schedules. Many new plants will go into operation. There will be a continuous demand for food, clothing, housing; we will be short of food. There will be no linens and the pressure right now is to get lower-priced cottons. Textiles have been generally placed in group 3, with a distinction between fine materials and lower priced cotton goods. We should try to recruit labor all over the country for textiles, first, to supply the needs of the Armed Forces, and, second, those of the general populace. The needs of the civilians will be met by some lower priced cotton goods—dresses, shirts, overalls, denims, work clothes generally. Maybe we will get to the sarong.

Mr. Bigge remarked that Mr. McNutt suggested a third change by the end of the year, with more unemployment than within the next 3 months. Mr. McNutt replied that no one can make a firm guarantee. Reconversion of possibly half the munitions plants will take time. Of course, for many people reconversion from goods of war does not mean any change at all—except perhaps in the color of the goods—when the product goes to civilians rather than to the armed forces. The civilian population could absorb such goods today. On the other hand, in the aircraft industry, the problem is not reconversion. The aircraft industry represented expansion, not conversion, in the first place. The capacity of aircraft manufacturing in this country today could not be absorbed by the world at large at the present time, no matter what is done. One of the most beautiful factories he had ever seen is an aircraft plant. What is going to happen to it? How can it be used? It is the kind of factory that could be put to any use. It consists mostly of walls, but has everything needed—elevators, escalators, and every other kind of service. But what will happen when they quit making B-29's—a most magnificent piece of machinery—in that plant with its 26,000 employees? After the last war, expansion of the automotive industry absorbed much excess capacity. Something will come out of this war, but it seems unlikely that plastics or anything else will completely absorb our war-time capacity. If expansion comes, it will be in the three basic things—food, clothing, and shelter—which everybody needs and which could be improved for a goodly portion of the population. Mr. Lyle commented that Mr. Ford is in-

terested in that. But, Mr. McNutt replied he is at least being coy about Willow Run.

Mr. Rosenfield asked how soon the restoration of agricultural processes and industry in Europe will affect the labor picture here. Not before the next year, Mr. McNutt replied. There should be a fair crop in France this year if they get agricultural machinery for which they contracted. That is not true in Germany, and he did not know how far the Russians can go. One of the prime things to be done during the remainder of 1945 is to make certain that starvation does not come to the peoples of Europe. If it does, there may be political repercussions from which it will take a long time to recover.

Mr. Wrenn asked Mr. McNutt's opinion on extension of OASI coverage. Mr. McNutt replied that he wanted extension of coverage in both UC and OASI. Prospects of any action this year seem nil, however. He questioned whether or not we ought to go at it piecemeal, but everybody seems to think we should take what we can while we can get it—perhaps extension to Federal workers in arsenals and federally owned shipyards who are excluded while somebody across the street doing the same thing for the same wage is covered. Miss Woods asked about extension to the Armed Forces—to the people who are losing rights to benefits. Mr. McNutt replied that the Chairman and he had agreed at the outset there could be some freezing procedure. Do not forget, he added, that the Armed Forces will continue to receive benefits as long as they live. It has always been so and always will be.

Mr. Altmeyer asked if Mr. McNutt's remark had meant that the thought that Congress will adjourn before they get around to considering the fundamental social security amendments. Does that preclude the possibility of consideration in the fall? Mr. McNutt said no. He thought consideration was underway now; it will be given in the fall. There may be committee action, but the Ways and Means Committee will take some time. Mr. Kasius asked if there is a prospect of covering Federal employees in UC. Mr. McNutt said he didn't know what the reaction would be if President Truman advocates it. Coverage will probably come little by little.

Mr. McNutt said he had enjoyed being present very much and was sorry he could not spend more time. Mrs. Woodward expressed the appreciation of the regional directors and others that he had been able to come.

Mr. Beasley was chairman of the seventh session, which considered personnel and fiscal problems.

Veteran and war civilian personnel problems (Mr. Wagy)

We need to beware of a glib assumption that veterans or returning civilian are or will be problems. Like the rest of us who have experienced change and grown older, they are likely to find resuming former jobs and occupations somewhat perplexing for at least a while. Perhaps, our No. 1 general problem is to learn how to treat our returning employees so that they will soon be able to resume their full duties and to get the most satisfaction out of doing their work.

In comparing probable future personnel needs with the supply of persons whom we must or may employ, I picture a ledger; on one side are total obligations of the Board and on the other, probable needs in the immediate future. Let's take up the number of jobs we may expect to need in the next year or two—not an accurate estimate but a rough approximation. The present base is a little more than 10,000 jobs. Add 3,500 jobs to make a total 13,500 jobs we think we see not too far ahead. When we return to the 40-hour week, resume some services and work suspended for the duration, and add the staff necessary to take care of the positive upward trend in OASI claims and in other activities, it is not unreasonable to expect to need to return to our prewar strength, which was about 13,500. This figure does not allow for any legislative expansion of the program, which obviously would require a greater number.

On the other side of the ledger, we must do a bit of conjecturing. What is our present estimate of the obligations against our jobs on which we probably shall have to make good? Our records show we owe men in the military service 2,989 jobs; civilian employees, 2,549—a total of 5,538 jobs. Our actual ultimate obligation will be much smaller. Let's deduct war-service people now in military service or in other agencies. By and large, they are a younger group, with much shorter Government experience. If they are now civilians, their progress since leaving us probably rules out their return. They now have higher jobs. Many cannot return even if they want to because of manpower regulations and the like. If these people are in the Armed Forces, they will probably be among the last to be demobilized because they are younger and have had the least

service. Further, we are not obligated to keep war-service appointees, even though they should come back, beyond the end of the war and 6 months.

We believe many will not come back to the Board. The War Department recently studied a fairly large sample of servicemen in this country and found that 65 percent have definite plans for the future 17 percent have tentative plans; 17 percent are undecided. The 65 percent with fairly definite plans are made up of 7.4 percent who want to return to school, 12.9 percent who want to go into self-employment, and 45 percent who want to work for an employer. The men with tentative plans did not include any who indicated a desire to return to school but added 5.9 percent who probably wanted self-employment and 11 percent who thought they would like to work for an employer. Incidentally, the International Harvester Co. claims that more than 98 percent of their men have come back and reentered their old jobs. I know of no other company or outfit that has received back so high a percentage of its former employees.

Obviously we cannot be sure that men will carry out their present plans. It is generally agreed that men didn't know much about the GI bill of rights when they gave these opinions. When they learn of it, a much larger proportion may want to go back to school; encouragement and counseling at the separation centers and from employers may have much to do with it. The length of the war will also make a big difference. If it lasts longer than we expect, men may feel they must go to work. If they have not been in school lately, they will be inclined to take jobs rather than go to school. Finally, the greatest factor will be the economic situation in the country at the time a man is demobilized.

About 40 percent of the men previously employed expect to return to their former employer. This figure is made up of 25 percent who are sure they want to and 14 percent who may but are not sure. Only about 20 percent of the men in the Army previously worked for employers; 80 percent had had no regular employer.

Miss Engle asked what was meant by "regular employer." The figures seemed biased statistically. Can it be correct that 80 percent were self-employed or unemployed? Not agricultural employment, Mr. Waggy replied, but largely work for small outfits, industrial plants, and the like; persons who have a job to go back to, people with reemployment rights. The Board might expect to have more than 40 percent of its servicemen claim their jobs. We have a somewhat key position in postwar Government activity. Our jobs are likely to be attractive, our work is challenging. Our men probably are somewhat older than the general Army group; the fact that many were married and had dependents and had somewhat longer work experience may encourage or persuade them to come back to us. Often they have homes and other ties in the neighborhood.

For net civilian reemployment obligations, we have very little experience on which to base any estimate. Under the present rules, a civilian cannot force us to reemploy him unless he is involuntarily separated from this war job, and that must happen within 6 months after the end of the war. Civilian reemployment rights terminate if they are not exercised by that time, though the Commission might decide to extend them. Return of civilians will depend largely on the demobilization of the war agencies now employing them and, when that time comes, on the attractiveness of their former jobs in the light of prevailing economic conditions. Most of the obligations for this group are to women; a few men not chosen by selective service are included. A large proportion of these obligations are for clerical jobs paying \$2,000 or less. Many of these absentees will have progressed to higher jobs and will not want to return.

It seems not unreasonable to expect that, all in all, possibly 50 percent of our absentees may eventually return, plus or minus 10 or 15 percent, depending on the course of events. If that estimate is within reason, we may expect to make good on 2,500 or 3,000 jobs—fewer than our probable recruitment needs for the next year, which are estimated at 5,000–5,500. Thus if all who intend to return could do so in the next year, we would still have to recruit outsiders. Not all can return in the next year. Under the Army's plan for demobilization in the 12 months following V-E Day, our men are not likely to exceed 650, of whom perhaps not more than 450 will return to us. The foldup and curtailment of some war agencies in the next 12 months will, of course, start personnel back to us and to other old-line agencies, not only people with reemployment rights but also war-service appointees and others seeking job security.

I conclude that mandatory reemployment obligations will not require us to make reductions in force or cause major dislocations—that is, wholesale demotions or extensive lateral transfers. There will be a lot of lateral transfers. Changes, however, should not be minimized.

Veterans will be a major source of recruitment; in the long run this fact perhaps overshadows the problem of the returning veterans with reemployment rights, particularly in industry. We, however, will enter this first phase with a very large core of permanent employees; permanent employees and permanent employees in limited jobs, even now after all our losses, still constitute nearly three-fifths of the Board's employment. In the Government as a whole, permanent employees are only one-third of the total number; two-thirds are out-and-out war service. In discussing what has happened to men in the Armed Forces and what steps have been taken to prepare them for reentry into civil life, I shall lean heavily on the professional observations and opinions of psychiatrists and others who have been closest to these problems.

A man entering the Army takes with him certain mental and physical equipment. He has to learn to adjust himself to the loss of his individuality, to separate himself from long-established habits and personal relationships, to become reconciled to the loss of his personal freedom. Army life has affected different men in different ways. All are trained to submerge themselves and to rely on new habits and authority. The vast majority weather the change and the dangers of Army life.

Some men who slipped through the screening of Selective Service and shouldn't have been taken in the first place have been discharged, though perhaps they have no outward sign of illness. These have been variously referred to as neuropaths or persons with neuropsychiatric symptoms. Such persons, we are told, are likely to be nervous, excitable, or depressed and given to periods of rather intense anxiety for which there seems no reasonable motivation. We all know that the danger in the wholesale labeling of persons as NP's often is a mistaken assumption that they are not employable. Actually, many resume their civilian pursuits without too much difficulty if oriented to the job with understanding. The Army has done much to help these men and particularly those who have suffered from combat fatigue and shock.

Let us not confuse these rather mild types of temporary maladjustment with the really serious mental disorders, which are referred to as psychoses and generally institutionalized; we shall not meet many of these in our employment of people.

An intermediate group suffers from what are called psychopathic personalities. Such people have deep-seated defects and are general troublemakers. They rarely progress or even hold their own in the Army because they resist discipline. Among them are alcoholics, drug addicts, homosexuals, pathological liars, and criminal types. Those psychopathic personalities have been a great headache to the Army and will be, as they have always been, equally troublesome to employers.

It is generally believed, however, that fewer misfits can be expected as demobilization proceeds. The NP's represent a relatively high proportion—perhaps 40 percent—of the early discharges. Their numbers will greatly decrease as the Army proceeds with demobilization, because the men now coming out will be the fittest in the entire population.

The Army now has 17 and will have 19 separation centers in this country, from which men will be demobilized and returned to their homes. It is training a group of counselors. They prepare a separation classification, bringing the man's record up to date by talking to him to see what he has done in the Army and entering all this information on a form. They give that form to the serviceman and advise him to hand it to employers. They also do separation counseling. If the man wishes, he has an opportunity to talk with the counselor about personal plans and problems, rights, the GI bill, and so on. The Army takes the stand it doesn't want to try to tell the man what to do, but rather to explain the situation and hope he will make the proper decision. The Army sends a postcard to the last employer. At the centers are representatives of five major services which have to do with the rights and welfare of returning veterans, the Veterans' Administration, USES, the Red Cross, Civil Service Commission, and Selective Service. The Army pays the man off and gives him his transportation home, a clothing allowance, and a booklet on reentering civil life. At this point we take him up.

What then happens to him and what steps should we take when we employ him or return him to his job? Even for normal men, we are told, return to civil life presents some disappointment, uneasiness, and confusion. They must establish new or reestablish old relationships. Most men, if they are not meddled with too much, get back into the swing within a few weeks or months. The NP's among them may present a more delicate problem. The psychiatric casualty often insists on work which he cannot do. We do him no favor by putting him

in a job in such circumstances, because we may delay the kind of treatment or placement which he should receive.

There are a few common sense principles which may apply to all veterans and especially to those who have had gruelling assignments overseas. We can give them understanding placement and informational counseling to clear up some misconceptions about jobs and rights, jobs elsewhere and wages elsewhere, and various other things of that kind—give them factual information if they are interested. We should cut the red tape. We can make the veteran feel welcome; make it easier for him to feel the sense of belonging. We shouldn't try to assign a man too much work or try to get him into the harness too quickly. We shouldn't pamper him. We do have to be reasonable about his minor deficiencies and errors in this transition period. We may have to let him take it easy for a while. We had better let him do his own adjusting. If he cannot settle down to work after a considerable time and seems troubled by matters which cannot be cured by his own adjustment and the therapy of work, it is then time to seek professional advice.

In the Social Security Board, we have acted in the belief that our regular practices and procedures may be applied to veterans as to other employees. We have not attempted to segregate a veteran's problem. A person who had observed a lot of returning veterans recently wrote: "Veterans are not problems unless we make them so. Veterans are people with all the problems that other people have and some special ones of their own because of what they have been through." That is pretty well stated, yet I wouldn't like to fall back on these views as an excuse for not doing anything. We should now take stock particularly of the actual business of returning people and employing veterans.

We are not generally doing some of the things which are a part of some of the more advanced industrial plans for reemployment of veterans. For example, the International Harvester Co. has a veterans' counselor who keeps track of the man from the time he is slated for induction until he has returned to the job, checks his progress, and follows up. We don't have such a counselor in the Board; perhaps we shall want one later—I don't know. The Harvester Co. sent out a newsletter to all servicemen, which included a post card for changed address and anything the man has to say. We have not done that in the Board. We keep as much information as we get on the record card but have no thoroughgoing system for keeping all information. If that company learns that a former employee is in a hospital in this country, they send a company representative to visit him. They inform supervisors about their plan of restoration to jobs, training, and follow-up by the conference method. In their procedures for actually returning a man, emphasis is placed on reception. We don't have medical examination. They do. After they find out from the medical examination that there is any particular caution they should observe in placing the man, they look at their occupational survey, which provides a quick way of locating jobs for handicapped persons. They have flagged groups of jobs, such as those with no hazardous machinery, or no heavy lifting or dust, or no walking or standing. If the doctor says to keep a man away from noise, they know where to put him. The next step is the actual placement; the next in-plant training. The policy is to move a man around, even if they have to move him clear across the country, to find the right job. They keep a complete case record of his progress and follow-up interviews. They have an advisory committee composed of representatives of employment, medical, training, safety, veterans' counseling, and labor. The committee aids the plant superintendent in administering the plan. We are doing many of these things in the Board, but not all. We have deliberately chosen some of these ideas and rejected others.

In conclusion I will outline what I think we should emphasize. If the frequency of certain problems justifies, it may be necessary to set up a specialized counseling or placement service. At any rate, we should make sure that our placement officers are familiar with interviewing techniques that are calculated to discover and deal with the confusion so common to people after a destructive war. We shall need to complete the job-analysis program which we have already begun, so that we may know quickly and accurately what our jobs require and how best to arrange interchange of personnel among them. As a corollary, we should keep personnel information up to date, so that skills gained in the Army may be known and recognized in promotions and in reassignments. We would do well to think seriously about an educational program for supervisors. The mechanics of restoration to jobs are pretty well covered in our printed material. I must leave for another occasion a subject

of great future significance to our operation—the effect of veterans' preference on the quality of recruitment.

Mr. Beasley asked how much headway is being made in considering the war-service absentee for otherwise unencumbered vacancies in higher grades as they arise. Mr. Wagy replied that we are pegging a few jobs for absentees when it is generally known that the absentee is the best man and also in many cases in which a man's job is reclassified upward with no material change in the duties. We certainly consider the absentees every time we make a so-called permanent appointment. Mr. Lyle asked if we take into account experience in the armed services. Mr. Wagy replied that we haven't been able to dig into it at all yet; when a man returns, we may be able to talk with him and find out what experience he has had and whether it will make him a more valuable person for a particular job.

Mr. Wrenn asked if there is any relaxation of OASI standards. Five boys from his region fly B-17's. They had been CAF-1's but certainly won't want those jobs when they return. Miss Mulholland said they wouldn't necessarily have to return to grade 1 jobs, but they would have to meet certain standards before they could be promoted to field assistants. Miss Engle commented that material has been prepared by the Army and Navy to help translate Army experience into equivalent civilian experience. The regional office maintains a personnel card showing all the man's experience in the Army in strictly civilian fields. Mr. Wagy added that we use that to advantage, especially in connection with employment interviews. Mr. Wrenn said that some courses given in training are really college courses. Can they be considered as a substitute? Mr. Wagy said he didn't see why not. Mr. Mitchell added that the National Council on Education has rated training courses and other military educational experiences in terms of equivalent college credits. Such ratings would have as much significance for work assignments and placements as for college education; we will get this material out to you soon. Miss Mulholland said OASI placement officers have the Army and Navy occupational information on equivalents in civilian jobs and are being trained to use it.

Miss Engle said that the problem of the bright youngster who has had a developing experience is comparatively simple in comparison with that of the person in the middle or late thirties who goes through several years of routine and frustrating experience in the ranks without any particular growth in responsibility or level of experience. Mr. Lyle expressed concern over the fellows who in the absence of these veterans have been promoted to higher jobs and have done an outstanding job; stepping them down will be tough. Mr. Wagy said that need to expand to our prewar strength and the fact that some veterans won't come back may add up to leaving men where they are, though we may have lateral transfers; the man who comes back may insist on a job in a certain town. Miss Engle said that problem is simpler in the departmental service, with a number of jobs in the same town, than in field offices. Another practical question in transfers is the expense of moving household goods, which may be more than the increase in salary. What will we do if the move is to a lower grade—cash out of pocket and less salary? Mr. Wrenn suggested the man might accept the situation for the benefit of the organization.

Mr. Wagy said one regional director had inquired about recent developments of the Civil Service Commission on the allocation and classification of field jobs and asked Mr. Wells, the Board's classification chief, to discuss the situation. Mr. Wells said that when we talk about classification, we usually preface our remarks with our fundamental principle of equal pay for equal work. People in the field have certainly witnessed a sad situation with respect to equity of salaries in the Federal service in the war years, particularly with reference to the war agencies. That is the fundamental reason behind the present Executive order, which is an attempt to bring order and equity back into the salary administration of Federal field positions. This order in no way affects the authority of the Board to allocate positions. The Civil Service Commission apparently does not plan to make, and now has no means of making, individual allocations of positions. The order, however, does provide that the Commission shall prepare standards for field positions, which will be combined with those now in use for departmental positions. It also provides that national heads of agencies and departments shall allocate their positions against those standards and, as a small measure of control, the Commission will have authority to postaudit our compliance with those standards, when and if they are published.

That post-audit program will take place through the regional classification people. As nearly as we can determine informally from the Commission, it will

be at least a year before they get to that, although they now have classification officers in their regional organizations. Their first step was to ask for a list of positions in the agencies. We were able to get an agreement on furnishing that list from the central office, so for the most part field staffs were not bothered with that request. Second, they have asked for blanket clearance to go into any one of our field establishments and make such investigations and inquiries as they feel necessary in developing standards. A letter from Mr. McNutt to the Commission last week indicated that all contacts with FSA field installations should be through channels; in other words, they will come from the Federal Security Agency, through the departmental offices, and you will be informed of any inquiries that the Commission would like to make in any of your field offices.

Last week the Commission extended to the field service a number of standards in use in the departmental service. Of special interest to us are those relevant to correspondence clerks, office-machine operators, statistical clerks, telephone operators, and so on. The Board has tried to follow classification standards in all field allocations and we do not fear that our jobs will be out of line in this extension. More important and interesting are the occupational groups which they now are studying for purposes of standards. They seem quite concerned with claims examiners and are studying that group and others of interest to the Board. We are furnishing material, and some investigations may be made of field positions as they go along. Machine-tabulating jobs form another large group which will include a large part of the departmental OASI jobs in supervisory and procedural positions and regular punchcard and tabulating people. Accounting and auditing jobs are under study and we have been asked to present standards for accounting and audit jobs in grants-in-aid; we expect to have some contact with the regional auditors through your office as the project goes along. Miscellaneous clerical jobs, such as procurement and property jobs and secretarial jobs, are being studied; to get standards for those will be something. Positions of file clerks, attorneys, librarians, and others are also under study.

We understand informally that any agency which has at least 60 percent of the coverage of a certain occupational group may be able to prepare the standards for that group, and we hope and expect to participate with the Agency in the social economist group, which covers practically all our professional positions in the Board and the departmental and field service. That seems a rather long-range project and we shall welcome suggestions as it goes along. We have done some work on jobs that are peculiar to the Board's organization and perhaps not directly comparable to those of any other agency, such as field assistants and some of the higher administrative positions. We are continuing to work with the bureaus in developing material which we feel the Commission will probably accept as standards, against which we can operate without particular interruption of our services. Under this new Executive order, administration of the classification of all positions in the Board will come up for study and there may be some procedural changes, but none are contemplated at this stage.

Mr. Beasley said that if there were no further questions Mr. Mitchell would talk about the budget.

Budget problems (Mr. Mitchell)

On the first day of these meetings; Mr. Powell said, "We are going to spend more money, a lot more money." If he had been conscious of the present problems he might have added, "Don't spend it before you get it." On budgets we deal with the House Appropriations Committee, the Deficiency Committee, and the Appropriation Committee of the Senate. You might learn who their members are.

Budgeting is a year-round proposition. Justification of 1946 estimates is not yet over if there are to be hearings in the Senate, and we are starting on estimates for 1947. The estimates for fiscal year 1946 were based on the assumption that the war would continue throughout the year in both Europe and the Pacific. We assumed that there will continue to be jobs for nearly everyone who can do any kind of work, that earnings and family income will continue at high levels, and that there will only be a moderate increase in the cost of living. All these factors, of course, bear on every aspect of the social-security program. The problem of changing assumptions for budget estimates for both 1946 and 1947 has already arisen, because V-E Day either is or soon will be here. The 1946 estimate we sent to Congress for grants for the three PA programs was \$416 million. That amount is \$6.2 million more than the total for the fiscal year 1945, for which there was a \$6.2 million deficiency appropriation. A deficiency appropriation has cleared up most of any anxiety that we might have

otherwise had about the current fiscal year. Last week President Truman, in going over the 1946 appropriation estimates, concluded that we should use an estimate for PA based on assumption 2—end of the war in Europe. That means addition of \$15 million, which would bring the grant total for 1946 to \$431 million. The justification statement has just gone to Congress; we may be called for further hearings.

I will summarize a few of the statements that will appear in greater detail in the transcript of the appropriation hearings. Increase in the amount for PA grants reflects the fact that States have found it necessary to increase individual monthly payments to meet at least part of the wartime rise in the cost of living. In some States, too, wartime conditions have brought an improvement in the State fiscal situation and have made it possible for the State to strengthen a previously inadequate program. The decline in the number of recipients of OAA is remarkable because the number of old people is increasing rapidly. Although the aged population has increased 900,000 in the last 4 years, fewer people were receiving OAA in December 1944 than at any time since 1940. In recent months, however, the decline in recipients has slowed down or come to an end. We believe that most of the persons on the rolls who are able to work or find other sources of support have already done so, and that there will not be substantial further shrinkage of the assistance rolls. The amount we requested for PA was based on the estimate of the rolls in 1946. On the average, nearly 2 million old people will be receiving OAA averaging \$29.33 a month; about 256,000 families will be receiving ADC for 638,000 children at an average monthly rate of \$45.50 a family; and AB averaging \$30.22 will go to about 55,000 persons. All those figures have been revised upward within the past week to take account of the new estimates under assumption of the end of the European war.

The averages are very different for different States. At one extreme, probably about 1 old person in 20 in the State will be receiving old-age assistance; at the other, about half the State's aged population. For the country as a whole, the recipient rate for old-age assistance will be about 1 old person in 5. The estimates for public-assistance grants are made up by getting the State's prognostications of their rate of expenditure, relating those to such measures as we have available, entering a sum total, and dividing by the potential number of recipients to get an average rate. For aid to dependent children, the recipient rate for the country as a whole is estimated at about 16 per 1,000 children under 18 years of age. State estimates range from 9 per 1,000 children to 38 per 100,000. Rates for aid to blind range among the States from 9 per 100,000 civilian population to 109 per 100,000, with a national rate of 48. Several members of the committee expressed concern as to the fairness or even appropriateness of use of Federal funds for a grant program in view of the great difference among States. At least a couple contended that the amount individuals get from Federal sources should be uniform among the States because the funds come out of general revenues; that there shouldn't be reliance on State determination of individual need to the present extent; and that a basic amount paid uniformly in all States and matched by Federal funds might then be supplemented to reflect the generosity of the States. That is a different idea from variable grants, which are also in the picture.

This morning's discussion of informational service needs might also reflect the situation on the Hill in Washington, D. C. We were confronted again with the usual confusion between old-age and survivors insurance and public assistance—even more in the deficiency hearings, as might be expected, than in the hearings on 1946 estimates. Failure to distinguish between the two programs adds to the difficulty of presenting information and defending estimates. In both the deficiency committee and the regular committees there seemed emphatic renewal of the idea of exempting income in public assistance. In connection with the deficiency estimate, an amendment was submitted on the floor of the House to exempt earnings of nurses. Examples were cited of at least alleged harshness of administration in the States, for example, in reducing assistance because an old lady got a present of a calico dress. There seemed a belief that too tight a hand is held on the funds and that there is no opportunity to use practical judgment in determining the individual payments when a small amount of income is available.

Miss Engle asked if there was any discussion of a national minimum below which a State could not fall. Mr. Mitchell said he recalled none—and in response to questions from Mr. Kasisius, Mr. Wrenn, and Mr. Harper—said no.

interest was expressed in the extent to which recipients took advantage of Public Law 45 or in a flat-grant pension or, apart from our testimony, in increasing aid to dependent children. The amount requested for salaries for the Bureau of Public Assistance for 1946 was the same as that available in 1945.

In unemployment compensation, wartime employment has brought a downslide in many operations. The weekly average number receiving unemployment benefits under the 51 laws was 75,000 in December 1944 as compared with more than 1,250,000 at the high point in 1940. On the basis of the most recent actual workloads and most recent administrative costs in the States, we requested \$32 million for grants for unemployment compensation in 1946, \$3 million more than the original appropriation for 1945, which was \$29 million; a deficiency appropriation of \$996,000 has been made, however, for 1945. The \$996,000, with the unencumbered balance in the States, is sufficient for all known regular needs and will leave a small surplus of \$300,000 or \$400,000 for supplementary allocations to at least 3 States which we now know will require additional funds. If additional States request more money for this June, the picture may be substantially revised. We can take care of all requirements known last Saturday afternoon and have about \$80,000 left nationally. If the impact of cutbacks hits very rapidly, it is possible that funds will have to be supplemented again. We certainly hope that does not occur because of the difficulties of getting supplemental requests through Congress when so many other things are demanding its attention.

Going back to our testimony before the committee, the estimate of funds needed for expenditures for 1946 is about \$3 million less than actual expenditures in 1944. There seems obvious need for more funds in 1946 than the \$32 million we have requested. The expenditure rate by the end of 1945 will probably closely approximate that figure. In preparing the 1946 estimates we used assumption 1, continuation of war on both fronts. Assumption 2, conclusion of war in Europe, jumps that figure, as I recall, to \$47 million. All these estimates exclude employment-office operations. In the hearings, the feature of the discussion was the committee's insistence that more work should be done to bring administrative expenditures in the States into greater uniformity. The committee members discount the States contention that the wide variance in the State laws necessitates wide differences. They seem more and more inclined to look to workloads and other more obvious and less complicated factors as the basis for appropriating funds. That point of view complicates the Board's problems in justifying our estimate because we are caught between the conflicting opinions of the States and of Congress. The Board is responsible for determining the amounts to go to the States, a rather unpleasant and difficult task. Nevertheless, for the third time, the committee has emphasized its wish to have the Board move definitely toward bringing about more uniform unemployment compensation administrative expenditures. During the hearings we were informed that the interstate conference representatives—I gather at their request—have been invited to talk with the committee. They did so after we were there. Reports of those discussions are fragmentary but seem to indicate that nothing of unusual significance or interest occurred.

For salaries of the Bureau of Employment Security, the request is \$645,000, exclusive of overtime—about the same amount available for 1945. Incidentally, throughout the appropriation requests, overtime has been excluded because the present overtime legislation expires on June 30. Any new overtime law will necessitate supplemental appropriations. At the Budget Bureau we were confronted with an unusual problem in that we were encouraged to increase the administrative expenditures of the Bureau in Washington. They appear to feel strongly that more extensive planning is needed than can be accomplished within present staff limitations. In our original 1946 estimate, assumption 2 provided for an increase of \$100,000 more than is available for this year. When President Roosevelt decided that estimates would be presented on the basis of assumption 1, the Budget Bureau informed us that, if we wished, they would authorize transmittal of our estimate for unemployment compensation salaries on the assumption 2 basis—the \$100,000 increase. After Board consideration, it was concluded that it would be better to await actual developments than to go forward with the \$100,000 increase, since our basis for estimating all other Board activities was, "no increase except those dictated by workloads over which we had no control"—for instance, as in old-age and survivors insurance.

In old-age and survivors insurance, the wartime level of employment continues to increase the number of our policyholders. About two-thirds of the entire population above grammar-school age hold accounts in the system. Contribu-

tions are being paid in quarterly by about 37 million workers and their employers. The monthly benefit rolls include 1.1 million persons. Of these, nearly 670,000 are old people—retired workers and their wives, aged widows of insured workers and aged parents of deceased workers. Of the remainder, about 324,000 are child beneficiaries—children of retired or deceased workers—and 123,000 are widows who are caring for child beneficiaries. There have been two significant developments in old-age and survivors insurance operations in the past year: Claims for insurance benefits have increased substantially because of the increase in the size of the insured population, a rise in retirement of aged workers, and an increase in deaths that give rise to survivors benefits. War deaths probably have been a factor in this last, since claims based on deaths before age 35 have increased particularly. There has been a slight decline in the volume of work in maintaining wage records of covered workers.

Looking ahead, the 1946 estimate shows a slight decline in wage-record activity and large increases in the number of new claims and in the various activities concerned with continued certification of monthly benefits. We estimate that the number of new claims will be 40 percent higher than in 1945 and that the number of beneficiaries on the rolls will rise nearly 30 percent. As a result of these various factors, the composite workload of the Bureau of OASI will rise 16 percent. In relation to that rise in the workload, the Bureau requested a 7.6-percent increase in many-years and a 9.9-percent increase in money for salaries. These estimates are definitely conservative, and it appears that a deficiency estimate will have to be sent up during the 1946 fiscal year. For instance, on the claims side alone, the estimate of personal service requirements is based on an average of 16,000 claims per week. We averaged 16,000 claims per week in March of this year and the trend is very definitely upward. Since handling the claims load constitutes, as I recall, about a third of total personnel service expense in OASI, a definite increase in claims would make it a tight squeeze to get by with the funds appropriated on the basis described.

It now appears that by the exercise of ingenuity and energy the Bureau will have sufficient personal services money to meet the obligations for the present fiscal year. In the deficiency appropriation for 1945, we requested \$450,000 for OASI, which was only about half the amount the workload figures showed necessary. About \$600,000 would be needed, but recruitment has been a limiting factor, so we arbitrarily dropped the request to \$450,000. In the House Deficiency Committee the amount was cut to \$225,000, half the request, and our efforts to get the other half reinstated in the Senate were unavailing. Our regular annual appropriation bill has a provision permitting transfer of 5 percent from any appropriation title to any other title so long as the appropriation title to which the money is transferred is not increased by more than 5 percent. We therefore have transferred \$125,000 to the \$225,000 deficiency appropriation from unencumbered balances, and that is deemed sufficient to carry the Bureau through this fiscal year. We were thus able to continue the recruiting program then underway.

In the hearings, the committee again raised the question of incomplete and incorrect wage items. It was pointed out that their handling entailed substantial expense; as I recall, it costs \$1.9 million a year in personal services to handle the incompletes and incorrects. The committee, about 3 years ago, made its own survey of that situation and concluded that the Board's handling of the matter was satisfactory and that there was no serious threat to the integrity of the system. Since that time, this particular point apparently has been sleeping, but the committee brought it up again this year. It may not have special significance but obviously is something of which this Bureau and field people should be conscious.

We devised the chart I have passed around because of continuing difficulties in explaining to the Appropriations Committee what our three programs are and how we are organized to carry them and whence the funds are derived. Each Congressman on the committee received a copy, and I believe it was useful, because there was less confusion this year than in several past years.

The next appropriation item, "Offices of the Board," provides for everything we have on the personal service side except the three program bureaus. In that item we requested this year a small increase of \$6,300 for the Office of the Executive Director; that is a balancing amount after the pluses and minuses were taken into account and is attributable to the cost of carrying throughout 1946 promotions that became effective in 1945. The Appeals Council undertook to defend before the committee an increase of \$25,000 or 8 man-years, related mathematically to the increase in OASI, representing additional referees and

reporters and an attorney in the headquarters offices. For the regional offices, the increase is \$12,879 for—to be exact—6.9 man-years. This arises out of the OASI increase of about 700 field-office employees and the need for servicing them. Our workload statistics indicate that it takes about 1 man-year in the regional office to handle each 100 increase in employment in field offices. Otherwise, the regional offices will be operating on approximately the same basis as in 1945; that, of course, means tightness in clerical staff. We have had many indications of your difficulties in living within the allocated funds and positions ceilings. There is a very small contingency fund of both money and positions in Washington that we can parcel out in an emergency if any regional office encounters urgent personnel problems, but when and if you do request additions, you should keep in mind that anything additional does not come out of a surplus account, but has been taken away from other activities not so hard pressed as you might be. I can only urge that you further explore the use of clerical and stenographic personnel in the regional offices to make sure it is at maximum efficiency.

The requested increase of \$22,000 for Informational Service—approximately 5 man-years—grows out of increase in workload and the desire of Informational Service and the Board to amplify certain areas of their work, such as special service to business organizations and other groups, and to add another person to their labor-information service. Committees are often allergic to informational work, but reception seemed sympathetic. They made one proposal which Mr. Altmeyer accepted with alacrity—it related to our testimony that administrative expenses could be cut by doing more informational work. Suppose, they said, we deduct funds from your other administrative appropriations in proportion to the increase for Informational Service. I don't know what the outcome will be.

For the three emergency programs—civilian war assistance, aid to enemy aliens, civilian war benefits—budgetary developments of considerable interest have already been touched on. We also had a very interesting discussion of the continuance of the merit-system proviso in the appropriation act. If the committee does as they said they would, the proviso language may be modified to give the Board clear-cut authority to require laws and plans to be in accordance with the merit-system standards as adopted by the Board and unquestioned authority to take exceptions when States fail to live up to their own plans. In discussion of the proviso clause, the essence of what Mr. Altmeyer said is given in the first paragraph of a statement he had prepared: "The Social Security Board interprets this proviso to mean if the State public assistance or employment security agency deviates from its merit-system standards in appointing or retaining personnel or figuring rates of pay for employees, the salary payments involved may not be disallowed by the Board unless the employment or rate of pay was illegal under State law." Ever since the Board made this interpretation, the Bureau of Accounts and Audits has been taking merely memorandum account of deviations. As of a recent date, the total of exceptions involved is about \$613,000, in items ranging from inconsequential amounts to very large amounts. One State has a total of \$470,000, and 23 States would have exceptions of greater or less extent if the Board received directions, or found authority to withhold the amounts indicated. The discussion suggested that the members of the committee, in including the present proviso language, had not intended that States be permitted to enact a merit system and then ignore it, in whole or in part. In brief, language was proposed which, if not objected to by members of the committee before the report comes out, would make it clear that the Board has authority to require legislation or plans on merit-system setups to conform with the standards established by the Board and secondly, that any departure therefrom by the State may be subject to an exception in the amount of the violation. In other words, it wouldn't be necessary to find a whole system out of conformity in order to correct one deviation. The Board's privilege of exercising minor sanctions, when advisable, would be restored and made even clearer than before.

Mr. Lyle asked if action would be retroactive. States have had the earlier interpretation. Mr. Powell said he thought the committee was attempting to state more clearly what they had intended in the first place. Mr. Mitchell agreed. Mr. Beasley asked how it could be retroactive. Mr. Mitchell replied that the Board might determine whether or not the exceptions already taken should result in restoration of the funds or should be waived; in other words, authority would be in the hands of the Board. Miss Engle asked if we would go back to 2-year-old exceptions not reported to the State. Mr. Mitchell replied that we could, but the important point is the future application.

Merit system trends (Mr. Beers)

I have a very formidable looking chart which shows an almost phenomenal physical growth of merit systems. The question of evaluating spiritual growth is too delicate to chart. When the 1939 amendment was enacted, there were, of course, very few civil-service jurisdictions at a level affecting the programs of the Board. There were civil-service systems in 9 States, limited in coverage; departmental systems for unemployment compensation and public assistance were unknown. There were no systems at all in 42 States. Civil service, however, had grown considerably and pronouncements of governors and other notables had long favored application of the civil-service principle. By 1940, there were civil-service systems in 18 States, departmental systems in 13, joint systems in 19, and only 1 State was without a system to cover the social-security programs. At present there are civil-service systems in 21 States, joint systems in 28 States, and departmental systems in only 2 States. Every State has some sort of merit system. There is a clear line of development from the departmental system toward joint and statewide systems.

When the 1939 amendment was passed, an editorial in the New York Times heralded the amendment as the most significant development since the passage of the United States Civil Service Act. In many respects time has borne out that bit of prophecy. Various extensions in merit systems have been made since 1939, particularly in the last year or two. They testify to some inward yeast at work which I think entirely wholesome. For example, Nebraska has extended the merit system to cover clerical and stenographic employees throughout the entire State government. Florida has extended its joint system to include workmen's compensation. Utah has extended coverage to the juvenile court employees; South Dakota to the Office of Veterans' Affairs; West Virginia to the Office of Vocational Rehabilitation, and so on. Since 1939, civil-service systems have been set up in 7 counties and about 50 cities. A bill establishing a statewide civil-service system was passed in Oregon this year and similar bills received consideration in Utah and Pennsylvania. Missouri ratified a revised constitution with a provision for competitive examinations for employing personnel in penal and charitable institutions with authorization of the legislature to extend the system to other State employees. A Minnesota bill proposes bringing welfare employees in Ramsey County under the countywide civil-service system. In Oklahoma, the legislature considered a bill to give the merit system a statutory basis. Bills to extend existing statewide systems to local employees were introduced in Massachusetts and New Jersey.

Interest in civil-service operations was evidenced in legislative proposals in three civil-service States for investigating the operations of the systems already working. The Indiana Welfare and Personnel Acts survived bitter attacks. Specific proposals defeated included exempting county welfare directors and licensed personnel, admitting press representatives to oral interviews, and opening personnel records and written examinations to public inspection. Proposals were introduced in several other States—among them, Pennsylvania and Wisconsin—to bring under the merit system positions which, under the standards, should be covered. In others, there were measures to exclude single, high positions from the merit system. The biennial bill to abolish civil service in Maine was killed as usual.

Without question, the principal legislative concern was to make specific provisions to give veterans' preference in public employment. In the eagerness of State legislators to be generous, many types of preference provisions were introduced. Most of the extreme ones calling for inordinately complex administration were either killed in the legislatures or vetoed by the governors. There seems as much indication of support of the principle of merit systems in the legislation that failed as in that that passed. In the main, the statutory provisions extended existing veterans' preferences to veterans of the present war. Rarely was there deviation from the common point-preference pattern, which gives 5 and 10 points, respectively, in entrance examinations to veterans and disabled veterans. The chief departure from the Board's recommended preference policy has been in giving veterans' preference in promotion. The list of extreme in preference provisions is long; I will point out only a few instances. A North Dakota law gives any qualified veteran who is not appointed the right to appeal to the district court, and the court may direct his appointment. A few States provide, in effect, for eliminating or reducing the probationary period for veteran appointees. One State enacted almost verbatim the Federal Veterans' Preference Act of 1944. Another considered a bill to make all appointments of nonveterans on a war-duration basis, while all veterans get permanent appoint-

ment. In Pennsylvania, which already has a strong veterans' preference program, a new proposal would give all the preferences to veterans' children. Several States provide promotional examinations for veterans comparable to those given while the veteran was in service; in one State, the identical examination must be administered.

Several legislatures considered measures to restrict operation of the merit system. In 3 States, bills would change certification from 3 to the single highest eligible. In Ohio, a bill would require that of every 3 persons employed by the commission for the blind, 1 shall be blind. Several measures supported by organized labor would minimize or eliminate consideration of service ratings in layoffs and reemployment. Illinois amended its law to prohibit any requirement of formal education for admission to examinations or appointment. A bill in New York would provide that lack of educational qualifications shall not disqualify an employee from taking a promotional examination.

Bills to increase salaries included increases in base pay not tied to the duration, or war-duration bonuses, and overtime pay. An Indiana bill of considerable interest would have established a system of pegging salaries in State and local positions to the prevailing wage rates in the immediate locality. It failed to pass.

This brief picture, of course, gives no notion of the amount of change taking the form of amendments to rules. There has been an extensive crop during the past year. The war-duration regulations have been widely adopted—on a class-by-class or statewide basis. The Board's war-duration relaxations were designed to terminate automatically at the conclusion of the war; they were intended to be geared to demobilization and to the material change in the labor market resulting from return of veterans. Some relaxations and modifications may remain. War-service appointments will obviously cease. Appointment at grades above the minimum, to offset certain inequities, probably will be discontinued. Hopefully, the compensation and classification structure will emerge in better form. Relaxations in the examination or selection process will probably disappear. Crediting provisional status toward reduction of the probationary period may or may not remain—hopefully not—for it threatens merit selection by putting a premium on provisional appointment.

Whether desirable qualifications will gain favor over minimum qualifications remains to be seen. It is difficult to see in the current legislative period any clear-cut trend away from formal educational requirements. But there can be little doubt that public psychology, accentuated by the return of the veterans, will tend in that direction. Five States already have statutory prohibition of educational requirements—Connecticut, Massachusetts, Ohio, Pennsylvania, and Illinois; four States—Minnesota, Arizona, Louisiana, and Michigan—are making use of desirable qualifications.

In cooperation with the War Department, through the American Council on Education, schools and colleges now have examinations for evaluating special and general education acquired by people who have had their normal course of experience interrupted. The educational world has shown considerable insight in making certain allowances for such interruptions. General and special examinations will be used by the schools and colleges to give credit to people returning to school from civilian life or the armed services. The educational world operates on the assumption that life goes on whether or not it goes on in school, and learning likewise.

Our experience of the past 2 years suggests that in the future more emphasis is likely to be given to examinations. Last year 41 States and Territories have called on STAS for examination material. Some were civil-service States which had not previously called on the Board for aid. These requests from 41 States covered a total of 906 classes spread proportionately among professional, technical, and clerical groups.

Admittedly the written examination measures only mental content and processes. Its effectiveness even in this area depends largely on the kind of competition available before the examination is administered. Qualities of personal force, adaptability, and social intelligence are exceedingly important. Other processes of selection—the oral interview, training and experience, and the probationary period especially—afford a better means of selection of personnel possessing the desired personal qualities than the written test. But their effectiveness is also conditioned on the number and quality of persons recruited for competition.

What are some of the critical shortcomings of merit administration at its present stage of development? First, and primarily, the quality of persons recruited could and should be improved. Second, the person on the job is too

completely subordinated to the position. Third, minute supervision is too often substituted for the spirit of inquiry implicit in a broader outlook. Finally, in attempting to bring personnel administration within a framework of law, merit systems engender a mass of minor, detailed regulations that sharply limit the area for the exercise of judgment and serve rather to substitute the letter for the spirit of the law.

The future of the merit system will hinge less on a rigorous exploiting of laws and rules than on appealing effectively to the socially minded person and challenging his interest in public employment as a career service. The greatest hope for the merit system rests on the factor of public relations and in particular on the problems of recruiting. Public support of the merit system is the real measure of its success; the extent to which it must rely on authority for its operation is the measure of its weakness.

Mr. Neustadt asked if we are doing the wise thing in trying to insist on adherence to the strict letter of the law in the States when they try to exempt positions from the merit system? Mr. Beers replied that from the operational point of view, the question depends largely on the particular exemptions proposed. Mr. Kasius asked if at some point we will liquidate deviations. Mr. Beers replied that at some point it might be well to wash the slate clean and start over. Mr. Neustadt remarked that several States have permitted appointments of experts and made some provisional appointments without regard to civil service. Mr. Harper asked if study of the wartime relaxations have led to considering their permanent retention. Mr. Beers replied that it is hard to say now.

In response to Mr. Kasius' question on the possibility of testing personal qualities, Mr. Beers replied, "Not in a competitive setting." Some schools and colleges record certain findings on interests and attainment in a clinical setting. Many of these qualities are measurable if the person is not in a contest, but is in process of getting analysis for his guidance, educational or vocational. When we give a competitive test which is supposed to demonstrate the candidate's personal equipment, those qualities are too easily faked. Mr. Harper asked if the oral examination should be retained after the war. There is some pressure on that point. He thought the probationary period should be increasingly emphasized in the whole examining process. Mr. Beers replied that the oral examination is a rather crude method of making determinations, but is so deeply written into tradition that there is little likelihood of any great desire to get it out. Mr. Bigge asked why it had been dropped. To save time, Mr. Beers replied. Sending out oral boards to various points in a State or having many people gather to take their turn puts a heavy burden on time and cost.

Mr. Beasley asked for concrete suggestions concerning public relations that would advance the merit system generally. Mr. Beers replied that much has been done more or less indirectly. Public relations are not to be identified with flag waving and trumpet blowing. In many States highly satisfactory and mutually beneficial relations have been worked out among operating agencies and learned societies, personnel officers, college groups, public-spirited citizens, and similar offices and organizations. Every employee in every program is a potential pro or con for the merit system. Another marked influence favoring public acceptance and merit systems is the extent of confidence resulting from a selection process which includes the combination of the oral interview, rating of training and experience, and a written examination.

Mr. Beasley reported that Mr. Wilbert was absent because of illness and Mr. Shaw and Mr. Peavey would take his place on the program.

Fiscal exceptions (Mr. Shaw and Mr. Peavey)

Mr. Shaw opened the discussion. We hope that the change in the merit-system proviso will eliminate the serious headaches in this type of exception. Other than that, we have had petty annoyances in connection with fiscal exceptions of less than \$200 for which we didn't want to prepare an audit report. For some time our procedure for handling them has been merely to advise the States of those exceptions and suggest that if they concur in the amounts they adjust them in the next statement of expenditure. If they don't concur, we handle them in a formal processing when we have exceptions of larger amount. We would like to get away from the annoyances of those petty items. In conjunction with the operating bureaus, we have attempted to get the Board's permission to waive those exceptions but the Board has held that it lacks the legal authority. However, we are attempting to process them in a little different manner than that ordinarily used for exceptions. We are not going to send them to the States for the second time as a formal presentation.

Mr. Peavey said the Board's action of September 26, 1944, doesn't have very much effect on our audit of assistance payments so far as dollars and cents are concerned, but is highly significant for the administrative review. Earlier procedures required us to apply provisions of the State law or policy if they were more restrictive than the Federal law or Board policy. Now, only the Federal law and Board policy will be used. A State letter on this point and a general memorandum to regional auditors on changes in several PA audit captions are in preparation and will be issued shortly.

Mr. Shaw continued. We have been annoyed by the delay in transmitting some scheduled exceptions to the State. We are experimenting in region VIII with a new procedure to audit within the audit period, in other words, make the audit more nearly current. Elsewhere the audit begins 1 month after the end of the 6-month period to be audited—7 months in all. In this experiment, we are attempting to audit up to the last day of the audit period, during the period. Miss Engle said she would like to discuss that plan of current auditing in more detail. The States in region IV have to be audited in the counties and their books are current tools of administration for the local agency. If auditors are using those books almost constantly, we shall get in the hair of the State agency. One protest has already been filed. We have gone into it carefully with three States of the region and find that it presents rather serious problems.

Mr. Shaw replied that the auditors did not intend to be in the hair of the States any more than in the past. We would begin a little earlier. The amount of coverage and time spent in the agencies would be relatively the same. We are trying to get answers to such problems in experimenting in one region. Miss Engle pointed out that regions are dissimilar in the use of records. Mr. Shaw said that after this experiment is completed, we shall attempt to apply it to the various factors in the other regions giving consideration to such differences. We realize that in some States the records are posted up to date almost currently, while in others there are delays. Miss Engle asked about estimate of staff. Mr. Shaw replied that they had asked the regions what the numbers would be, as they were not in a position to make a very good evaluation. We will have to approach the question after we complete the test, and then weigh all the advantages against the disadvantages. It would give us quicker results and we would be able to advise the States of the results much earlier. In the decentralized States, the cost would certainly be greater than at present.

Mr. Lyle asked if, in the light of what had been said, the present restrictive policies of some State PA laws do not violate Board standards. Mr. Peavey replied that there is a distinction between assistance payments and administrative expenses. As we understand, the Board felt that the act carries necessary controls on assistance payments to enable the Board to guide the general direction of the program. When it came to administrative expenses, there is little or nothing in the act that gives the Board a real foothold. The issue is not closed. In other words, the subject of administrative expenses must come up later. At present, we have nothing to lean on but the State law and rules and regulations when it comes to administrative expenses. Mr. Harper asked if we were not to take exception to personnel actions that violate Board standards. Mr. Peavey replied that that is tied up with the proviso clause. We take exceptions when the Board's standards are violated, but such exceptions are handled only in the manner described in the general memorandum of the executive director, February 5, 1945. Things will be simpler when the intent of the proviso clause is clarified. Mr. Lyle said there should be uniformity of Board policy as to the basis for auditing assistance payments and administrative expenses.

Mr. Shaw remarked that another question related to decentralizing travel vouchers. Some time ago a test check was made of the time involved in travel vouchers and it was then decided that a further test of having vouchers processed in one region should be made. We are beginning a test in region X, of having all vouchers processed in the region as they have been processed in Washington. Then a decision will be made on the extension or elimination of the decentralization of vouchers.

As chairman of the last open session of the conference, Mr. Powell remarked that his part was to turn the meeting over to the chairman. Tinkers to Evers to Chance, Mr. Altmeyer replied. My part is to turn the meeting over to Wilbur Cohen.

Social security—Its past and future (Mr. Altmeyer)

To get down to earth and talk about our tasks is a let-down from the momentous news of the day. Yet in a way it seems to fit the mood of most of us at the moment—that is, just what are we going to do with the victory that is ours?

Those of us who have lived through the endings of two world wars sense, I think, a difference in the attitude of the Nation today, as compared with November 11, 1918. Then the Nation was not so conscious that, while the war had ended, the peace had just begun. Now we realize all too well that, hard as it is to fight a war, it probably will be still harder to win a peace. Probably the greatest task of the peace is to bring a degree of well-being to all the peoples of the world. If we cannot do that, we cannot abolish war. So social security really is basic to a world at peace. Just as we have learned that war is indivisible, so peace is indivisible and so is social security. It is our job in our various ways to help as much as we can to build the edifice of well-being that we have come to call social security.

You people know as much as I do or more about the present operation of the social-security program; you know the views of the Board, which have been expressed on many occasions, the last time most comprehensively in the Ninth Annual Report, and I think you can appraise the climate of public opinion better than we in Washington, who are in a more or less artificial or at least a surcharged atmosphere. So I would like to talk about the significance of the developments of the past, the present, and the future, and suggest principles that seem to be emerging.

Take the annual battle of the freeze; what is its significance? We march up the hill, we march down the hill, and we get licked each time. But have we been licked each time? I don't believe we have. Each year that we have marched up and down the hill a few stragglers have accompanied us—and very respectable stragglers, too, like the Wall Street Journal, the Journal of Commerce of Chicago, the National City Bank—some of them stragglers who at one time shot at us as we marched down. The organizations I mentioned are saying, "After all, we do have to pay for these benefits, and we are collecting less than the cost of the promised protection. We had better do some thinking about how we are going to pay for them instead of just damning this \$47 billion swindle," as was characteristic a few years back. That represents progress. But saying that, I want also to say that the financing of social security, important as it is, is of secondary importance. Providing adequate benefits is of primary importance. If we can include the population of this country in a social-security system, then the primary task is to provide adequate protection. We know this country is rich enough to finance adequate protection for our people. It is only a question of the will to do so and, if all people are covered, it follows automatically that ways and means will be found to finance that adequate protection. Money is the mechanism through which we rearrange and channel the resources of this Nation, so as to provide the greatest amount of protection at the least amount of cost.

That rearrangement can take place horizontally or vertically. If we finance through payroll taxes, for example, the readjustment of resources and income comes horizontally—between periods of the earning and nonearning of individual workers. That is probably the greatest step forward that can be taken. But there can be, and I think there should be, readjustment vertically as well. That is to say, the people with larger income and larger resources ought to contribute for the people with the lower income and resources. While it is important to maintain financing on a basis that insures adequacy of benefits and adaptability of the benefits to income loss, it is also important to make sure that we accomplish something by way of a redistribution of welfare among the various economic groups of this country, through a redistribution of some of the income and resources.

I am not suggesting for a moment that social security be used primarily as a method for redistributing income. That problem has to be attacked frontally and frankly through progressive taxes. What I do suggest is that in financing social security I want to make certain, first, that financing is done in such a way as to protect the benefits promised, and to provide the sort of benefits that fit in with the sort of economy in which we find ourselves—that is, a competitive economy, with differentiation in rewards. To achieve that purpose, I think that payroll taxes should play a significant part in the financing, but I also am very much in favor of having progressive taxation cover a large part of the cost of social-security benefits.

When should that modification come? As long as the payroll taxes are as low as they are now, it is not very important when it comes, particularly while we are getting as large a proportion of the Government income through progressive taxes as at present. Under the goad of war, we have stretched progressive taxation as far as the people of this country want to stretch it; saying we want to

finance social security through progressive taxation means nothing at present in terms of dollars and cents. It is just talking bookkeeping, rather than actual collection of progressive taxes. As long as the payroll taxes stay about 4 percent or so for employees and employers, respectively, we ought not to worry about their regressive aspect; and as long as we have tremendous expenditures that require tapping wealth through progressive taxation, the question of financing social security through progressive taxation is academic.

You know for the last few years the Board has been recommending a unified, comprehensive system of contributory social insurance without any gaps, overlaps, or anomalies. What has been the effect of that advocacy? At least it has given perspective. We don't just look gimlet-eyed at this risk and that risk; we think in terms of total economic security and get perspective and balance in our thinking. We don't race down the road saying that old-age pensions are the sine qua non that will spell social security, for example. At least, I hope we don't; perhaps they still do in some parts of the country. At any rate, the advocacy of an overall contributory social insurance system helps, and I think we have made progress in that regard.

Our advocacy of health insurance as a part of that total social security program has greatly stimulated the thinking regarding that great gap in our social security program. Among other things, it has stimulated, or perhaps I should say goaded, the doctors into action. Some of that is expressed by the National Physicians' Committee and the Association of Physicians and Surgeons; but while they are sending out their hatchetmen, they are doing some honest thinking among themselves. They realize that simply shouting "regimentation," "bureaucracy," "Federal domination," and so on, is not enough—that they must do something constructive, something affirmative, to meet the growing public demand for protection against the cost of medical care and the income loss due to ill health.

Great progress has been made in that sector. I think, for example, that the pending Hill-Burton bill to provide better physical facilities for the care of the sick, which has a good chance of being accepted, is supported by even the medical profession, perhaps subconsciously as a defense against more undesirable action on the part of the Government but also affirmatively, because they have come to understand that there is need for action in this field of health. In 1938, the situation was quite different; if such a proposal had been advanced then, there would have been a terrible outcry. After the National Health Conference in 1938, the best that could be accomplished was the introduction of a bill that got nowhere. Finally a bill did get through the Senate on a sort of pilot basis, but it was so weak that everybody lost interest in it. The situation is quite different today. The least we will get in the field of health is provision for more adequate health facilities.

Including unemployment insurance in the proposed overall social insurance system has greatly stimulated, shall I say, soul-searching on the part of the defenders of State unemployment insurance systems. It has at least provided a whipping boy and a hobgoblin for the State defenders to point to in their recommendations for improving their State laws. To put it on the lowest level, they have said to the legislatures, "Those Federal hobgoblins will get you, if you don't watch out." So there has been action throughout the country—if not on a socially conscious basis, at least on the plane that it is a necessary defense against the encroachments of Federal bureaucracy. So far, a better progress has been made in providing adequate unemployment insurance protection than if we had not recommended the inclusion of unemployment insurance.

Of course I know the negative aspects—that the proposal may have injured Federal-State relations; probably it did. But we are in the business of providing social security, not in the business of getting along with each other happily as individuals. If we can achieve the second, fine; but if we have to sacrifice one, we sacrifice friendly relations. As a matter of fact, I think after the first year or two of anguish and suspicion and distrust, Federal-State relations have recovered and are fully as good as they were at the beginning. Adding up the negative and the positive aspects, I think that our advocacy of a Federal system of unemployment insurance has meant a great thrust forward in improvement of State unemployment insurance laws.

Some thinking has been done on an interim system of bolstering the State unemployment insurance laws. In 1942, right after Pearl Harbor, Sidney Hillman recommended a \$300 million supplementary fund to provide more adequate protection against unemployment due to conversion. Last year Justice Byrnes recommended to the Congress that something be done to protect against unemployment due to pending reconversion. Now the same problem is giving concern

to Judge Vinson. The supplementation or bolstering can take 1 of 2 forms—it can be an outright supplementation through Federal moneys, superimposed on the regular benefits provided under the State unemployment insurance law, or it can take the form of enacting Federal minimum benefit standards which the States would be required to observe.

The second form is certainly the more logical, when we bear in mind that the States have \$7 billion in accumulated reserves. There is really no reason why the Federal Government should finance supplemental benefits as long as the States are able to finance adequate benefits themselves. But we have a practical situation; the State legislatures are going home—half of them have gone home already—and if any Federal action at this time is to affect State legislation, its effective date would have to be in the future. We are caught in a dilemma between logic and practicality. I don't know what the outcome will be. There could be a mixture of the two, with Federal supplementation until a given date after which the States themselves would be required to finance the more adequate benefits through their own State laws and funds.

As a matter of fact, in connection with the financing of any interim system of unemployment benefits, we should be thinking in terms of more fundamental adjustments of the relationship between the Federal and State Governments in unemployment insurance. Supplementation by Federal funds is simply an inducement to the States to keep their own benefits low. The lower they keep them, the greater is the Federal supplementation. On the other hand, Federal minimum benefit standards would be the result of a compromise between the relatively high-benefit States and the relatively low-benefit States; I am not sanguine that the Federal minimum benefit standards would be fixed at any really adequate level. An approach that seems to have more promise and to fit in with any long-run readjustment would be for the Federal Government actually to finance a certain proportion of the unemployment benefits. A State then would have an incentive to improve its benefit structure, because the more it improved it, the greater, automatically, would be the Federal participation. Let's say the Federal Government would match dollar for dollar. The argument for State legislation would be: "Well, gentlemen, any increase of the benefits under our State law would be borne 50-50 by the Federal Government." It seems to me that has greater promise for upping the benefit scale than Federal minimum benefit standards.

A thorny question remains, however. At what point would Federal matching occur? Would it be geared to depletion of State reserves? If so, won't the objection immediately arise, "We, who built up the highest reserves, will be punished and will not be able to participate in this 50-50 matching as much as the States that have been less prudent, or have given their employers a greater break, and so have built up lower reserves." That problem can be met this way: Federal matching could occur when the present reserve, whether high or low, has declined to half its present level. If that were taken as the starting point of Federal matching, then the higher the State reserve, the higher the dollar level at which Federal matching would occur, and the lower the reserve, the lower the dollar level at which Federal matching would begin. To encourage the States to continue to collect contributions, if they wanted to, we could provide that Federal matching would begin when the State reserve had declined to half its present level plus any collections that the State had made after the effective date of this law. In other words, if a State reserve fund were \$100 million, Federal matching would begin when the reserve had declined to \$50 million, plus whatever millions of dollars had been collected during the intervening period; a State therefore would not be punished for continuing to build up its reserve. There is logic in having the Federal matching begin when the reserve has declined to half the present amount because, if the Federal Government accepts half the liability, since then the reserve needs to be only half as great to be as effective as it needs to be today to meet the State's whole liability.

Such a plan could leave the States the option of choosing how they would meet their 50 percent of the cost—whether through depletion of their reserve or through employer-employee taxes, or a combination of these two, or out of general taxes. The Federal Government would not be interested in how the State met its half of the cost. The matching would apply to administrative expenses as well as to benefit costs, so that we would get away from the embarrassment involved in 100-percent financing of administrative cost.

Congress may consider an interim system for providing unemployment insurance benefits. One element of such a system is of particular interest to us;

that is, what protection will be afforded Federal workers? There are about 2 million more Federal workers than there would have been if it had not been for the war. There will be a great shrinkage in the number of Federal workers and need for protection against consequent unemployment. I have heard mention of at least five alternative ways of providing this protection: The railroad unemployment insurance system could be extended to cover all Federal workers; the District of Columbia unemployment insurance law could be extended to cover all Federal workers; the State laws could be extended to cover all Federal workers; a brandnew unemployment insurance system could cover all Federal workers; and finally, there could be a system of dismissal compensation, geared to continuing unemployment, under which the person would be carried on the payroll of the dismissing Federal agency at a certain proportion of his salary if the employment offices reported that he was still unemployed. Administration of unemployment benefits for Federal workers could take 1 of 2 forms—it could be carried on through the States, as in adjustment allowances under the GI bill, or by a Federal agency. If the former, it could be administered by the Social Security Board or the Civil Service Commission.

There is no unanimity of opinion among the Federal workers themselves as to what form action should take. That is unfortunate, because people who in any case are jaundiced about providing protection say, "Well, if you can't decide among yourselves, let's turn to something else." Federal workers who are jittery about any tie-in between the Social Security Act and the civil-service retirement system are also jittery about any extension of social security to Federal workers, whether unemployment insurance or any other form of social security. They consider any relationship between social security and Federal employees as a threat to their civil-service retirement benefits.

As I have been thinking about the developments of the last 10 years and what is likely to happen in the future, it has seemed to me that two fundamental principles are at work: providing adequacy of benefits and providing universality of benefits. It pains people who at best are skeptical of social security that we no sooner get a law on the statute books than we want to change it and provide bigger and better benefits. They say, "Well, you see, it is like the camel's nose, the entering wedge—give them an inch and they take a mile." They are completely disillusioned; that is the wrong term, for they never have been illusioned about social security. Well, they are right; any social legislation is by its very nature evolutionary. People will never be satisfied with the level of protection, just as we in this room are not satisfied absolutely with anything we have accomplished in life. If we were satisfied, we would turn into vegetables, though perhaps even vegetables have some inner urge if we apply the right kind of test. So the principle of adequacy of benefits is always at work.

So also with the other principle, universality. No sooner does one group of the population get this protection than other groups say, "Why shouldn't we have that protection?" There is a tendency to extend that protection to more and more sectors of the population. That's inevitable, too. It is obvious that if anything is good, people will want to share in it.

Under adequacy of benefits I put not only the amount of benefits but also such elements as simplicity and objectivity and certainty. In public assistance, for example, it isn't just that the amounts are improving, but also the way the benefits are provided. In social insurance, not only the amount of benefits is improving, but also the kind of benefits. Dependents' benefits; greater consideration to the law-wage earner than to the higher wage earner, and such things immediately start coming into the picture.

This principle of universality runs counter to the principle of particularity. We start out with a plan for protecting particular groups that have attracted public attention and aroused public concern. There may be children or veterans or the lowliest of all creatures, Federal bureaucrats. But at any rate, attention is focused on the need for protecting a particular group. So laws are enacted affecting this and that group. But then comes this principle of universality and we then find, every country finds, that we have a heterogeneous mass of particularistic legislation that doesn't make sense. Then after great stewing around, and travail, we try to bring all those particularistic measures into a pattern. That's the stage in which we are now in this country. I once figured out that a person who dies might have been covered by five different social security laws—workmen's compensation, veterans' legislation, railroad retirement, civil service, and social security—all relating to the same economic loss. On the other hand, some people who die in this country aren't covered by any one

of the five. We are in the embarrassing situation of having these particularistic approaches get in each other's way.

In public welfare, for example, take the particularistic approach in the present Social Security Act toward maternal and child health, crippled children, and child welfare. Each of those areas has an impact on general welfare programs or some other program; the crippled children's program runs into the rehabilitation program; maternal and child health runs into the general public-health program; and child welfare runs into the ADC program. We have headaches in that field because the particularistic approach is contrary to the universal approach.

When I say universal approach I am not arguing for one single system with one single set of benefits. I am suggesting that we ought to have a basic system of "social protection." Perhaps we can't use that term now because it has already been preempted. Incidentally, this illustrates how splendid words can be used to cover an unpleasant subject and thus become perverted. I am suggesting a minimum basic protection, on which the particularistic plans can be superimposed to whatever extent the people feel it appropriate to give added protection to some groups. Every country that has done anything in social security is confronted with this problem—Great Britain, Belgium, Brazil, Argentina, several other South American countries. You could call the roll. At some point of development in their social-security systems they have to make sense out of all these particularistic approaches.

Apart from the actual legislation during the last 10 years, there is a groundswell, a current, that must not be overlooked. Technicians have been analyzing various alternatives, weighing the pros and cons, and getting data ready, so that intelligent public and legislative consideration may be given to these problems with which we are concerned. There has also been a great deal of public education occurring through the discussion of social security in the press and magazines and in Congress. Whether it immediately eventuates in legislation or not is not of paramount importance. As a matter of fact, in actual legislation, these last 10 years have been tremendous. Some of us forget that little progress was made in all the decades before 1935 when we think of the progress made since 1935.

In 1918 when we were studying what sort of legislation could be evolved in the field of health, our imagination could travel no further than drawing up a model State bill and sending it to the State groups affiliated with the American Association for Labor Legislation with the suggestion that they get some friendly State legislator to introduce it and try to stir up some public attention. We never envisioned that the Federal Government could be called on in any way, shape, or fashion; nothing could have been further from our thoughts. We never dreamed of even the possibility of Federal grants-in-aid, let alone a Federal statute, to provide protection against ill health. True, there were grants-in-aid for highways, but they had a history of over a hundred years, running back to Andrew Jackson's time or thereabouts. That there could be Federal grants-in-aid for human welfare never occurred to us. I am sure the literature of that period has no references to the possibility of the Federal Government's coming into the picture. Now the pendulum has swung the other way. Whenever any group becomes conscious of a welfare problem, they rush to the Congress of the United States and get a bill introduced. The whole Nation has become more conscious of the problem of human welfare, of the possibility of the Federal Government's providing for public welfare, and its obligation to do so.

Take workmen's compensation, for example: After some 40 years since the time we first started considering workmen's compensation, we have workmen's compensation laws in all but one State. But because it did not swing within the orbit of the magic term "social security," over these 35 to 40 years workmen's compensation has improved very little. True, weekly benefits have risen, somewhat more than the cost of living, but protection against permanent disability and death is disgracefully inadequate. The movement has been very slow, glacierlike, in comparison with what we have achieved under the Social Security Act. When we think our progress slow, just think of the complete lack of progress before the last 10 years and of the lack of progress in this other sector.

We ought not be discouraged by the fact that we haven't had any legislation since 1939; we have been conditioned to expect too much. We have had a war to win. That alone would account for failure to give social security as rapid consideration as we would like. Moreover, social legislation must necessarily have a period of gestation; it cannot spring full bloom like Minerva from Jupiter's head. You have to have technical preparation and public discussion before you can hope to have intelligent and realistic legislation—and all of that has been occurring in all these years since 1939.

I have said before and say again that I am confident the next 10 years will represent as great progress as the last 10 years, but that 10 years from now we will be sitting in a room like this, again bewailing the fact that we do not have complete social security in this country, and that progress has been slower than we had hoped. That is the way human nature is—and that is its glory.

Mr. Powell said that most of the people in the room had been with the Board for 10 years or nearly 10 years and that the chairman's remarks had made him realize again that it would be hard to get an aggregation of people more earnestly committed to the betterment of conditions in the country, and better led. There is much satisfaction in that.

Mr. Neustadt mentioned that the Maritime Commission is considering a plan of covering maritime workers by an adaptation of the GI bill. Mr. Altmeyer said he should have given that as a sixth possibility in providing unemployment benefits for Federal workers. In every State, he continued, a deadly contrast is developing between the benefits under the Federal statute and the liberality in interpreting that statute, and the benefits under the State law and the illiberality of the interpretation of that law.

As a prelude to Mr. Cohen's remarks, Mr. Altmeyer said that two phases of the legislative process have always interested him. Some legislators make their greatest contribution through introducing a bill which serves as a springboard for public discussion and for their advocacy of the proposals in the bill. Other legislators make their greatest contribution in the legislative consideration of the proposals. We can all think of a number of great legislators in the former group, among them, Senator Wagner, Senators Murray, Kilgore, David Lewis, of a bygone day. But we have a tendency to overlook the contribution that legislators in the second group make in the actual committee consideration of the bills—for example that made by Jere Cooper, Judge Vinson, and John McCormack, in the Ways and Means Committee, in actually hammering a law into shape, in debates within the committee, debates on the floor, and in negotiations between the House and the Senate in conference. We mustn't forget the contribution of a man like Senator Harrison, who understood the psychology of legislators, knew just what the temper of his committee was, how far he could go, how far he couldn't go without losing support, and the lowest common denominator that could be attained.

Legislative prospects (Mr. Cohen)

What I have to say is much more pessimistic than the very high note which the chairman has struck. I assume that most of us here have to live through this next 10 years. (Mr. Altmeyer asked if he didn't, too. Mr. Cohen replied that the chairman has the advantage of being able to sit back, and when a difficult problem comes up, be philosophic about it.) But often, Mr. Cohen continued, I am assigned to the task of talking to a particular Congressman or Senator, and explaining how perhaps he can work something out in bill form which somebody will like. That is much more difficult than talking about what we may arrive at in 5 or 10 years. Day after day when you work with the question of covering Federal employees, and no one can agree on the details; when you work on how to extend coverage to State employees, and comments are made that any legislation in this field would destroy part of the State pension plans; and when you try to deal with extension of social security or old-age and survivors insurance to cover the Armed Forces, and the proposal gets bogged down because of minor details, and so on—then you recognize that we have a tremendous problem of educating to go through. As the chairman said, that process is going on now, but it doesn't go on very fast and sometimes we just have to wait until a certain process takes place.

From my own experience I am not optimistic about the possibilities of expansion of coverage in certain fields. I therefore think we haven't yet completed that process. Perhaps we have to be long-run optimists, like the chairman, and short-run pessimists. It's very difficult to try to see how some of these particularistic programs fit into a broad program, because the process goes on at a snail's pace. In trying to make progress in public understanding and education, sometimes there have to be compromises, and of course that is the function of Congress. But in view of the different groups that are advocating sometimes contradictory things, it is difficult to work out Federal legislation in 1945 that meets all the high standards that many of us think we would like.

A particular group of problems in trying to frame Federal legislation centers about such groups as agricultural labor, domestic service, and the self-employed, which have no really effective organization to express the group's wishes. That is a matter of degree, but compare these groups with the organized group of

industrial employees, or, on the other hand, with Federal employees or State employees, whose views are very vocal. Unless there is some radical change, I don't see any substantial opportunity to get extension of coverage to farm and household workers and the self-employed, because organization in these groups has not yet proceeded to a point at which there is a full understanding, and presentation of their wishes to Congress. We get letters from self-employed persons, and perhaps something can be done for them, but there is really no one who speaks for domestic employees. Platforms of the various parties have said that agricultural labor and the farm groups are anxious to be covered, but the feeling seems to be that it will cost money, and there may be some administrative problems, and some say it might be better to wait until we have more experience. There is no great dynamic drive yet or public understanding of what is to be achieved.

On the other hand, and in sharp contrast, is a second group, including Federal and State employees, which is very vocal, very well organized. These people become very evident, particularly at election time, and the usual result has been to prevent any action. Here, as the chairman implied, the argument is: "We have certain special particularistic interests, and we are not going to allow anyone to invade this field unless we determine how it shall be done. Since we haven't or don't want to determine what should be done, we would rather have nothing done." This problem needs a great deal of attention because of the very technical relationships among the present plans, and because often there are psychological problems that can't be fully answered—these "entering wedge" arguments. And if you or I protest too much, we usually are worse off than when we started.

My third illustration is extension of coverage to the Armed Forces. We always say that if the veteran wants anything, that will go through lickety-split. In 1940, when we went before the conference committee on the Second Revenue Act and presented the proposal for doing something about coverage for the Armed Forces, everybody said that something should and would be done. They committed themselves in the conference report to study the question with a view to immediate action. Congress and President Roosevelt said several times that something should be done. The administration sent up specific proposals; bills were introduced. Last year Senator Clark said he would make this the next item of business. He was defeated, and nothing has been done. A new bill has been introduced this year. So sometimes even things that appear acceptable politically come much more slowly than we think.

It sometimes is said that old-age insurance rights of servicemen are not much of a problem; that we can take care of that when the men come back; that if a man dies, his family will get veterans' benefits since the deaths will be service-connected; and that we don't have to hurry about this. Yet the Board has letters every day—one came yesterday from a woman whose husband had died, calling this a social-security swindle. We point out repeatedly the psychological, the morale factor, in extending coverage, and yet we have been fairly unsuccessful in convincing Congress that something should be done. There are reasons; perhaps we would say they are not good and sufficient. Probably the most important, although there are others, is the fact that in Congress the Ways and Means Committee and the Senate Finance Committee have jurisdiction over social-security matters. They are the tax committees of Congress. Therefore they are always slow to action because they don't want to set a precedent for committing the Congress to expenditure of funds, when they themselves have to raise the money. In war years they are often engaged in tax legislation or similar legislation. At present the Ways and Means Committee is engaged in a bitter factional fight over the tariff.

As the chairman was speaking about our long-run progress, I recalled that Great Britain enacted its first social-insurance legislation in 1911. Now, 35 years later, they are considering a really comprehensive program. If we have to wait 35 years, it will be 1970 before we are considering the prospects of a comprehensive program. But a lot has happened since 1911. Perhaps we can cut down the 35 years to the chairman's 10 years. But I think the next 10 years, or the next period of social security will be spent in fitting all the particularistic interests and problems into a comprehensive and universal approach.

Another big problem is how to fit the special interests of particular groups into what they want as comprehensive legislation. Take, for example, the interests of the blind, which cut across assistance and insurance. The blind have made representations that they have special requirements, and therefore should have a special place in both the insurance and the assistance programs. The American Foundation for the Blind has recommended that whatever the bene-

fit is, the insurance benefit payable to blind individuals should be \$20 more than for anybody else, because a blind person needs at least \$20 more than a person who can see. In connection with PA they have suggested that some amount be granted to blind people in addition to what other persons get. It is hard to fit that type of argument and demand into a comprehensive program that is simple and equitable to all groups. I could give specific illustrations which would make my main thesis appear tenfold worse; these are the problems that now face us day by day.

Recently Senator Wagner sent a list of 22 items that he was considering for his revised bill to labor and other interested groups to get their opinions. The one major proposal on financing was to reduce the contribution rate from 6 percent each for employees and employers, a total of 12 percent, to 4 percent each, a total of 8 percent. That decision may have been taken fairly definitely, because of the enthusiasm of the groups to which it was presented. As I understand it, part of the justification for the reduction is that the prospect or assumption of full employment for a reasonable period ahead makes it possible to reduce the cost for UC, since unemployment benefits will cost less than was originally estimated, and that since Congress has four times frozen the OASI contribution rate, it can be fixed at 1 percent. This latter factor and a saving of 1 percent in UC bring the 6 percent down to 4. That will not mean, however, that 8 percent will finance completely a comprehensive social security program. There will have to be a Government contribution or a higher rate or some combination of both.

There is a close relationship between the problem of adequacy of benefits and universality of coverage. Congress will have a very difficult time attaining adequacy of benefits as long as coverage is limited. Since I am rather pessimistic about obtaining extensive coverage now, I am not clear about the possibility of improving the adequacy of benefits. Certainly if coverage is broader, an insurance system can operate at a lower percentage of payroll cost, because fewer people who are in for only a short time draw disproportionately large benefits. Universality of coverage not only avoids the problem of part-time people, but also results in a greater distribution of the risk and hence makes it possible to provide more adequate benefits for a lower proportion of payroll. Perhaps Congress may make some improvement in the adequacy of benefits without extending coverage universally, although that, too, would bring grave difficulties, because the higher the benefits for the groups that are in, the greater the disparity for those who are out, and the more complicated and difficult the definitions of insured status must be. The only happy points in such a situation are that the people who draw benefits may have more adequate benefits and that those who are out will see, perhaps better than in any other way, that they had better make up their minds about coming in. We often forget about another school of thought, evidenced each year by bills in Congress—that adequacy of benefits in terms of wage levels of \$50, \$60, or \$100 a month is not what we should seek but, rather, a flat \$30 a month for everybody. These people do not believe in the contributory-insurance system, and their position, too, will come up in consideration of the interrelationships between coverage extension and adequacy.

This interrelationship is a particularly difficult problem for the sponsors of a universal bill because of the difficulties in getting universal coverage. The Wagner-Murray-Dingell bill of 1943 did not provide universal extension of coverage, despite the talk about its comprehensiveness. It offered no prospect of including railroad employees. Railroad employees have their own bill before Congress to extend survivor benefits under the railroad retirement program; they were not included in the social security bill of 1943 for health insurance, nor is it likely that they will be in this year's bill. Federal employees are not included in the 1943 Wagner-Murray-Dingell bill, nor does it seem likely that they will be included in any revised bill this year, because of their attitude toward the matter. Only about half the State employees—those not covered by a pension plan—were included. This situation makes for very grave difficulties in trying to work out the definitions of insurance status and the level of benefits in a revised bill. I don't know how those matters will be finally decided; there seems not much likelihood of a bill to protect all employees. The prospect, rather, is to include the groups that are already agreed that they want to be covered or those without enough organization to be vocal enough to oppose being covered.

Progress, however, can be made. In 1935 the 750,000 or 1 million employees in nonprofit institutions were excluded because of prophecies that coverage would mean a change in the philosophy of Government and would involve tying church

and state together and bringing philanthropic organizations under State control. A few years later there was a complete change in the attitude of that group—perhaps not 100 percent, but 99.44. Explanation of our program—what it tries to do, how it operates, what it can do for those groups—can modify attitudes. Fortunately, these nonprofit groups were highly organized. The objections made in 1935 were probably not the objections of the million people but of the heads of the organizations who came to testify. They were merely frightened and voiced the usual extreme complaints of frightened people. After more mature consideration and greater understanding of the facts they discovered that they were wrong. This change can be brought about in other organized groups, but the problem is somewhat more difficult when people lack the organization there was in the various nonprofit groups.

Among changes that seem likely to be made in the Wagner-Murray-Dingell bill, the most probable in the health field seems the inclusion for provisions for hospital construction—which, as the chairman mentioned, is now pending in a bill before the Education and Labor Committee—and perhaps also grants for public health service and for maternal, child health, and welfare services. This might be done mainly to show that there is a very close interrelationship between benefits and these other protections, and that extending insurance can't do the whole job. As the chairman put it, what we are interested in is the basic protection, so that any special programs to meet needs and risks can be superimposed or operated along with the more basic protections.

Some objection was made to the Wagner-Murray-Dingell bill's original public-assistance provisions, which were called a unified comprehensive public-assistance program. Some groups, particularly the blind and perhaps some of the aged, said this meant merging the programs for the aged and the blind and children in one big pot, with no differentiation of needs or of the special status of particular groups that had been built up over a long time. A closer reading of the bill shows that was not contemplated—States were to be free to include whatever groups of needy individuals they wished, and since the State would still have the responsibility and authority for determining need and setting the standards of need, or standards of adequacy, the Federal Government would not have any say in these cases. But it seems likely that various verbalistic changes will clarify this part so that some of the categorical groups won't feel that they are going to be just swamped and merged with all the others. We might say that the States will have the option of deciding whether they wish to continue categorical programs or to have a unified and comprehensive program.

One large problem remains. In extending the program to cover what is now general relief, the Board recommended administration by 1 single State agency and 1 single local agency. What are the county commissioners of relief likely to think of placing in the hands of the State what in many States has been purely a local responsibility? The original Wagner-Murray-Dingell bill provided for a single State agency for public assistance. The Board has recommended that there also be 1 local agency for administration of all public-assistance programs, and I think that recommendation is likely to be embodied in any revision of the bill.

Another point in public assistance that perhaps will be clarified in the bill is that of financial equalization among localities within the State. The Board's recommendations for modifying the maximum provisions, providing Federal grants for medical care and other services, and bringing in new groups of individuals, would, in effect, make more Federal money available to every single State in the Union, rich or poor. New York, for example, would get more money from the Federal Government because it now has some of these services without Federal matching. Even if some of the Southern States do no more than they are doing now they will get more money because of the Federal variable-grant provision. So everybody gets a cut in the melon.

If that is so, should the Federal Government place any greater responsibilities on the States to see whether something more should be done to insure more adequate or more comprehensive protection in a State, or are we merely to say that the Federal money is available if the States wish to do these things? One provision of the original Wagner-Murray-Dingell bill was that there be no residence requirements. That seems logical; if the Federal Government is to furnish 60 or 65 percent of all the cost of public assistance in the Nation, shouldn't it see that every individual who is a citizen or resident of the United States has equal protection, whether or not he has lived 6 months in a particular county or a year in a particular State? Despite the logic of that position, there is likely to be

some objection in some States. In recent weeks, some State legislatures have been talking about adding a more restrictive residence requirement to their relief programs. They say "We don't want to pay for assistance to all these war workers who have come in; when they become unemployed and eligible for relief they should go back where they came from."

Going one step further, if the Federal Government is to pay 60 percent of this total public-assistance cost, should it see to it that the States take greater steps than they have so far in initiating some type of equity between rich and poor localities within the State? Just as we have the problem of rich and poor States, so, even in well-to-do States, there are rich and poor counties. Perhaps there should be some Federal provision to insure some type of financial equalization at the State level; in other words, to require that a State take responsibility for assuring that the needs of individuals in the State are met, and that persons in similar circumstances are treated similarly.

The various points on public assistance that I have mentioned all flow inevitably from the question whether, if the Federal Government takes larger financial responsibility, there should be some greater State responsibility for assuring a more adequate and more equitable program. To carry that reasoning to an extreme, or to what some people would consider extreme, one might say that there should be standards of adequacy which the States should meet. That question is highly controversial, but perhaps when we have learned more and have had more experience, some day we can discuss methods by which that could be done. At present there probably isn't much acceptance of that idea.

A vast problem lies ahead of us. It's not an easy one for the representatives of the Board in the field or for those who have to talk with Representatives in Congress. But great progress has been made in 10 years, and I think that in the next period some of these special problems can be worked out by an explanation of what it is that we are trying to do. Recently the AFL and the CIO and the chamber of commerce drew up a charter on labor relations. If you can get people around a table to discuss their common problems you can make some progress; I think we can do it in social security, too.

Miss Woods asked Mr. Cohen to expand his discussion of reducing the tax from 6 to 4 percent. Mr. Cohen continued: Of the total 12 percent in the 1943 Wagner-Murray-Dingel bill, 4 percent was allocated to UC, 4 percent to OASI, 1 percent to temporary disability, and 3 percent to health, each of those percentages being divided between the employer and employee. No one knows, of course, what unemployment will be during the next 10 years. But in contrast to 1943, we now have the advantage of having built up a much greater reserve; according to all analyses, it certainly should carry us through the reconversion and the immediate postwar periods. Perhaps some States would have particular problems if they were to liberalize their benefits, but they haven't done so. None has come up to the standards of which we have been talking—uniform duration of 26 weeks, and a maximum weekly benefit of \$25. If we take an optimistic view of employment, with the pent-up demand built up during the war and the prospect of only short-duration unemployment, we are likely to have \$9 billion in reserves in the fund before the war is over. In view of these two factors, there is some justification for saying that a 4-percent tax rate is somewhat too high in terms of 1946 thinking.

Mr. Neustadt remarked that the Board asked the regional directors 3 or 4 years ago whether we should come out for the whole program, or just parts. If they should ask again, we would like to move that the Board instruct them to continue to make the concept of social security unified. Miss Engle added that she saw in every contact with public welfare groups—most recently with the APWA—the danger of the beginning of a sense of separateness and of desire to press for this part or that part, or to separate out a specific area of interest for interpretation in the States. Totality of interpretation will certainly strengthen public relations.

Mr. Altmeyer asked Mr. Neustadt to explain his remarks. Mr. Neustadt replied that the reason he had been so strong for social insurance for 25 years was that he hoped that thereby we would end almost all need for PA, and by the same token, make a fundamental blow at poverty and gear into the whole problem of unemployment in this country. We have made an approach but have confused the public by the dualism, not of our efforts, but of the habits and thinking into which the public has drifted. When the Board came out for the overall program in the *Fifth Annual Report*, a great note was struck, and again this year; he hoped that the Board will do it every year, and make that the theme song in public relations. If we don't get that result, our thesis falls, and the fall in this country would be the worst of all.

Mr. Altmeyer said he wasn't sure whether Mr. Neustadt feared that we will change or won't change. Mr. Neustadt replied that he fears we may change because of despair that the world will change, and that we may grow complacent and rationalize that we couldn't do what the world did not want done. Clinging to discontent will result in our realizing how far we are from our goals—and one of the ways to realize this is reading the annual report of the Board—and expressing our determination to make a dent on poverty and unemployment.

Mr. Altmeyer quoted Governor Winant of New Hampshire: "Always unsatisfied, but never dissatisfied." Miss Woods asked if the idea is to push for a unified program, rather than compromise by being willing to take our advance piece by piece. Mr. Neustadt replied with a quotation from President Roosevelt "We shouldn't give up what we have now until the better is attained." We shouldn't give up any part of our national program. We shouldn't cavil at PA as we sometimes try to do, but should work like the devil until that better is attained; never give up what we demand. Mr. Powell suggested an amendment—that we never give up asking for what we want, as a whole, but take what we can get when we can, and be glad of it. Miss Woods said she feared our Executive Director is becoming very practical; that is a dangerous trend.

Mr. Bigge asked Mr. Cohen if his remarks on covering agricultural and domestic workers implied that without pressure there would not be legislation. If the action is desirable, and there is no effective opposition, can't we hope that Congressional leaders may initiate it and put it through, even without demands from organized pressure groups? Mr. Cohen replied that probably that is true theoretically, but in a democracy, Congress is made up of people who react to vigorous support. Congress is overworked and overburdened. The problems of modern economic, political, and social life have put so much on their shoulders that frequently a Congressman says, "Well, if nobody is raising hell on that question, forget about it." They understand vigorous and organized response, one way or another. That is consistent in one way with the democratic process. Presumably Congress is there to give the American people what they want, and in our democratic system the test of what people want is whether they are willing to express themselves effectively to their representatives. Although the Social Security Board and two political parties have said extension of coverage is a fine thing, something new has to be added to make the congressional machinery function. I would like to be able to say, Mr. Cohen continued, that our argument, the logic of our argument is so good, the social desirability so apparent, that it is enough that we can sign a sworn affidavit that we can now administer it and that the groups whom we wish to protect admit that they should be willing to pay the cost; but I think that something more is needed.

Mr. Bigge replied he raised the question because Mr. Cohen's other two illustrations involved the effective organization and very vocal opposition among nonprofit and Federal and State employees. Here the situation is the reverse. Mr. Cohen replied that he could speak only from his actual experience. People sometimes say some things in public and something else behind closed doors. We hear, publicly, that everybody wants extension of coverage. Some agricultural groups are very much in favor of coverage but, by and large, they are small groups. Two of the three major farm organizations have said that they favor extension of coverage, if and when it is administratively practical; I think their emphasis is on the second part of that statement, not on the first. The important thing isn't merely—I think I am stealing this idea from the chairman—that people are for and against something; it is the intensity of their feeling for or against.

Mr. Lyle asked how we got survivor benefits in 1939. Mr. Cohen replied that survivor benefits came from a wholly different situation. No one was opposed to survivor insurance, and no one except the advisory council was for it. There was a misunderstanding in 1939 which made it possible for the Chairman of the Social Security Board to make a very effective case. There was a lot of talk that the system ought to be changed to avoid the hocus-pocus of the \$47 billion reserve, and we came through with a great idea about changing it. I can still see the Chairman explaining the slope of the benefit disbursements, and that little dip of his hand is what got survivor benefits. (Mr. Altmeyer added that he would use that same hand again if Mr. Cohen thought it would work.) Mr. Cohen continued: In 1939, there was not a complete appreciation of problems of social security; there wasn't a great deal of organized opposition or support. The Board and the advisory council had an opportunity to advise. Because of the misunderstanding and confusion about the reserve and everything else, Congress

wanted something done. We gave them something, and they could say something was done. That situation is not likely to be repeated in 1945 or 1950. It was like the situation in 1935. How did we get the Social Security Act of 1935?

Mr. Bigge replied that the Administration made the groups think they wanted it. There wasn't any vocal demand, initially, from the groups affected. Mr. Cohen said there was no demand and no opposition. Mr. Bigge replied that is exactly what we have now in agricultural and domestic service, only there is a little demand now. Mr. Hardy added that headlines justified the Social Security Act in 1935 and made the appointment of the Committee on Economic Security possible. The whole Nation was at the point of chaos. Mr. Hardy continued that in talking before granges and Rotary Clubs, and other groups, he encountered repeated questions on covering domestic workers and the self-employed. He also finds support for covering agricultural labor—that all grange conventions and conferences he addressed in New England supported it.

Mr. Altmeyer remarked that Mr. Cohen, like our military leaders, doesn't want us to be lulled by a false sense of optimism. Mr. Cohen said he thought we would get improvement of our social-security legislation, but a lot remains to be done. All these speeches are wonderful—public understanding, public education; but we have yet to see a single Congressman or Senator introduce a bill extending social security to agriculture or domestics except the sponsors of the Wagner-Murray-Dingell bill whom some people consider social-minded and perhaps a little radical. Mr. Neustadt added that support in 1935 was born out of fear. Fear of unemployment is already with us again. Mr. Hardy asked about the poll taken by the United States Chamber of Commerce. What greater support do we want? Mr. Cohen replied that that poll had no item on extension of coverage to the self-employed, because, as he understands it, they didn't feel that it was practical; yet of all the groups, some of the self-employed are likely to be the first to be covered. The most appealing advocates of coverage before Congress, and most successful, are the small businessmen. They say, "I am already paying a tax; I want to get the same protection as my employees do." That is likely to result in some legislation. But the chamber of commerce didn't think the prospects of getting it practical enough to vote on.

Mr. Lyle asked if it is too early to speculate on what form the hearings will take, who will appear, and what if anything we can do to help? Mr. Cohen replied that the House Ways and Means Committee has set up a special committee to consider social-security matters and to go into the cost of OASI. That indicates that OASI will be the first item on their agenda, which is not altogether illogical, since the tax rate is to go up to 2½ percent—not 2 percent—beginning January 1, 1946; Congress must make some decision on some basic factors in that program by December 31. That question alone is likely to take up the rest of the year. The Ways and Means Committee is holding hearings on the reciprocal tariff bill. It may take the better part of the summer to get that bill through the House and Senate. It is said there will be tax legislation. If that is so, comprehensive social-security legislation is likely to take a second place, unless a subcommittee is appointed. It is rumored that Senator George has agreed to hold hearings on social security in the Senate, but he has been in Europe investigating prison camps. He is chairman of a postwar planning committee, along with his responsibilities as chairman of the Senate Finance Committee. Possibly he may hold some hearings during the summer or fall. If hearings are held, many people will appear. We have made the American people social-security conscious, and a lot more people will oppose social security in specific details than ever before.

The polls show about 70 or 80 percent of the people in favor of social security—that's fine; but the test in Congress is always paragraph so-and-so, not the generality. How does temporary disability affect accident and health companies? How does the State and local coverage affect this particular group, and what do the State welfare commissioners think about this and that? Hearings on social security are likely to last a long time. In both 1935 and in 1939, it took 9 months from the time the hearings first began, to the time the law was passed. It seems hardly possible to do it more quickly this time.

Mr. Harper asked if there isn't ground for optimism about the immediate situation of the unemployment compensation reserves. Mr. Altmeyer replied that funds are in good shape even if unemployment goes up to 9 or 10 million. Mr. Harper asked, with an average of \$15 for 20 weeks. Mr. Altmeyer said that what would decide whether or not the present State system is adequate is a combination of the amount of unemployment that develops and the fears that that amount of unemployment engenders generally. Even after the war in Europe had started, some 7 million were unemployed but we thought we were in pretty good shape in this country. If 7 million are unemployed in the next year, it would make a much larger impression on public opinion than that number did

in 1940; 2 million would make as much of an impression as 7 million did before. The intensity of the problem and the interest pro and con will play a part in the legislative process. A feeling of inevitability and of expectation has been built up and must be taken into account in gaging prospective legislative action.

Over the years, Mr. Altmeyer continued, everybody has come to expect that there will be expansion and improvement—to believe that expansion of social security is inevitable, like “manifest destiny.” That attitude on the part of the public generally seemed to him a great help in getting action. While the particularistic groups and attitudes are important, nevertheless that general attitude develops. The second practical consideration is that when a congressional committee appropriates \$50,000, organizes a staff, and holds extended hearings, they are going to come out with something. How much he didn’t know, but inevitably they will come out with something, because the pride of craftsmanship, if nothing else, makes them feel, “We’ve been in this; we have to come out with something. The public is expecting that.”

Mr. Powell declared that, before adjourning, he wanted to congratulate the committee that prepared the agenda and made the arrangements for the meeting, and particularly the people who participated. It is easy to get accustomed to the quality of thinking that we have available. But it would be difficult to go out and buy the quality of brains, or thinking, or enthusiasm, or whatever it was, that seems to have given us a pretty high quality of exposition. It’s like the administrative process—you get a good one and a product flows out as a natural result of long arrangements, and you don’t pay much attention to it; you take it for granted. But without it, the things get into a mess, and without the quality of brains, to put it as bluntly as that, we would be in not nearly as good shape to do what we are going to have to do in the future. Despite the pessimistic note, or realistic note, perhaps, that Mr. Cohen sounded, much hope for progress is implicit in the kind of people who are doing this job. It is not healthy to indulge in much self-laudation, but this has been a good meeting. Mr. Lund and the committee did an excellent job in planning and the departmental staff and the regional directors have made out of it what seems to be a pretty good product.

I don’t know how long it will be before we get together again, Mr. Powell continued. Everybody who has spoken here has emphasized the need for more and better effort. The business of public understanding is hard to measure, and it’s hard to influence. It’s a long, slow process. As I said earlier, training and interpretation are something that we can’t ever forget, we can’t ever stop using. In looking back over the past decade, I can’t think of anything for which we should be sorry. We have made tremendous progress. As the chairman said, we have every reason to believe that the people of this country and of the world are going to demand more implementation of the economic bill of rights. We have an important part to play in it. This termination of war is occasion for thanksgiving and reappraisal of ourselves and our whole activity. The object and tone of this conference have been, I hope, to search ourselves to determine how well we have done what we have done, how well we have thought out our processes, and how thoroughly we are determined to improve and strengthen the democratic process in this country. We might close with 1 minute of silent prayer of thanksgiving for termination of the war with Germany, and add to that a prayer for understanding and strength to do our job right for the people of this country and for the people of the world.

The session closed with 1 minute of silence.

VII. LYNCH *v.* UNITED STATES*

CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE FIFTH CIRCUIT

No. 855. Argued May 7, 1934.—Decided June 4, 1934

1. Policies of yearly renewable term insurance issued under the War Risk Insurance Act, are not gratuities but are contracts of the United States. P. 576.
2. Such valid contracts of the United States are property, and the rights of private individuals arising out of them are protected by the Fifth Amendment. P. 579.

*Together with No. 861, *Wilner v. United States*, certiorari to the Circuit Court of Appeals for the Seventh Circuit.

3. Congress is without power to reduce expenditures by repudiating and abrogating the contractual obligations of the United States. P. 580.
 4. Consent to sue the United States on a contract is not a part of the obligation of the contract which may not be impaired; it is a privilege accorded, not the grant of a property right protected by the Fifth Amendment, and may be withdrawn at any time. P. 580.
 5. Withdrawal of all remedy, administrative as well as judicial, for enforcement of a contract against the United States would not imply a repudiation of the contract. P. 582.
 6. By the provision of § 17 of the Economy Act of March 20, 1933, purporting to repeal "all laws granting or pertaining to yearly renewable term insurance," Congress intended to take away the rights of beneficiaries under outstanding yearly renewable term policies, and not merely to withdraw their privilege to sue the United States in respect of such policies. P. 583.
 7. This statutory provision being void in so far as it purports to take away the contractual right, can not by the rules of construction be given effect as a withdrawal of consent to suit; *non constat* that Congress would have wished to deny the remedy if it had realized that the contractual right remained valid. P. 586.
 8. Section 5 of the Economy Act providing: "All decisions rendered by the Administrator of Veterans' Affairs under the provisions of this title or the regulations issued pursuant thereto, shall be final and conclusive on all questions of law and fact, and no other official or court of the United States shall have jurisdiction to review by mandamus or otherwise any such decision," does not relate to war risk insurance but concerns only pensions, compensation allowances and special privileges, all of which are gratuities. P. 587.
- 67 F. (2d) 490; 68 *id.* 442, reversed.

CERTIORARI † to review two judgments, in different circuits, which sustained the dismissal by District Courts of actions to recover amounts alleged to be due the beneficiaries of war risk term insurance policies.

Mr. Rowland W. Fixel, with whom *Messrs. Arthur E. Fixel, John J. McCreary*, and *M. Frome Barbour* were on the brief, for petitioner in No. 855.

Mr. Edward H. S. Martin for petitioner in No. 861.

Solicitor General Biggs, with whom *Assistant to the Attorney General Stanley* and *Messrs. Will G. Beardslee* and *Charles Bunn* were on the brief, for the United States.

Jurisdiction was refused below because of §§ 5 and 17 of the Economy Act of March 20, 1933.

Section 5 does not concern war risk insurance, and § 17 is the controlling section. By that section "all laws granting or pertaining to yearly renewable term insurance are hereby repealed," with certain saving provisos which do not include this case. The repeal includes the section under which suits on such policies have hitherto been brought in District Courts (World War Veterans' Act, 1924, § 19, as amended by Act of July 3, 1930, c. 839, 46 Stat. 991, 992) and under which this suit was brought. The repeal preceded the filing of the present suit. The situation, therefore, is that at the time the present suit was filed the only law under which jurisdiction of it was conferred upon the court had already been repealed. The court, therefore, held correctly that it had no jurisdiction.

It is clear, and not seriously disputed, that this is the meaning of the Act of 1933. That it was also the purpose of Congress is made clear by the legislative history. The question, therefore, is the power of Congress to withdraw the jurisdiction previously given, and to terminate, before the suit was brought, the consent of the United States to be sued in such a case.

Petitioner complains that the Act of 1933 has wholly confiscated his rights under an insurance contract by repealing all the laws that grant them; but by the same Act of which he complains, the courts were deprived of all jurisdiction to entertain his complaint. If such withdrawal of jurisdiction is valid, the alleged effect of the Economy Act upon petitioner's asserted contract rights can not be considered. *United States v. Babcock*, 250 U. S. 328; *Hans v. Louisiana*, 134 U. S. 1, 13; *Hill v. United States*, 149 U. S. 593; *Beers v. Arkansas*, 20 How. 527, 529; *De Groot v. United States*, 5 Wall. 419, 432.

There is no difference, we submit, between an asserted violation of the Fifth Amendment involving a contractual obligation and one which does not; nor does

† See Table of Cases Reported in this volume.

a different situation arise where the right to sue is withdrawn from that which arises when it has never been conferred.

Of course, where a right has vested in an individual to sue one other than the United States, Congress may be without power to remove that right. Its absolute power to take away a right to sue applies only where the suit is against the Government. This power is inherent in the status of the Government as a sovereign. *United States v. Lee*, 106 U. S. 196, 206; *Bryson v. Hines*, 268 Fed. 290.

In short, whatever power Congress may have had over the petitioner's contract, directly, it clearly had the power to close the courts. Having done that before the suit was brought, it follows that the District Court had no jurisdiction of the case, and both courts below have properly so held.

The present suit is not shown to have been filed in time.

MR. JUSTICE BRANDEIS delivered the opinion of the Court.

These cases, which are here on certiorari, present for decision the same question. In each, the plaintiff is the beneficiary under a policy for yearly renewable term insurance¹ issued during the World War pursuant to the War Risk Insurance Act of October 6, 1917, c. 105, Article IV, §§ 400-405. The actions were brought in April, 1933, in federal district courts to recover amounts alleged to be due. In each case it is alleged that the insured had, before September 1, 1919 and while the policy was in force, been totally and permanently disabled; that he was entitled to compensation sufficient to pay the premiums on the policy until it matured by death; that no compensation had ever been paid; that the claim for payment was presented by the beneficiary after the death of the insured; that payment was refused; and that thereby the disagreement arose which the law makes a condition precedent to the right to bring suit. In No. 855, which comes here from the Fifth Circuit, the insured died November 27, 1924. In No. 861, which comes here from the Seventh Circuit, the insured died May 15, 1929.

In each case, the United States demurred to the petition on the ground that the court was without jurisdiction to entertain the suit, because the consent of the United States to be sued had been withdrawn by the Act of March 20, 1933, c. 3, 48 Stat. 9, commonly called the Economy Act.

The plaintiffs duly claimed that the Act deprived them of property without due process of law in violation of the Fifth Amendment. The district courts overruled the objection; sustained the demurrers and dismissed the complaints. Their judgments were affirmed by the circuit courts of appeals. 67 F. (2d), 490; 68 *id.* 442. The only question requiring serious consideration relates to the construction and effect to be given to the clause of § 17 of the Economy Act upon which the Government relies: for the character and incidents of War Risk Insurance and the applicable rules of constitutional law have been settled by decisions of this Court. The clause in question is:

"... all laws granting or pertaining to yearly renewable term insurance are hereby repealed. . . ."

First. War Risk Insurance policies are contracts of the United States. As consideration for the Government's obligation, the insured paid prescribed monthly premiums. *White v. United States*, 270 U. S. 175, 180. True, these contracts, unlike others, were not entered into by the United States for a business purpose. The policies granted insurance against death or total disability without medical examination, at net premium rates based on the American Experience Table of Mortality and three and one-half per cent interest, the United States bearing both the whole expense of administration and the excess mortality and disability cost resulting from the hazards of war. In order to effect a benevolent purpose heavy burdens were assumed by the Government.² But the

¹ Section 404 provides: "That during the period of war and thereafter until converted the insurance shall be termed insurance for successive terms of one year each. Not later than five years after the date of the termination of the war as declared by proclamation of the President of the United States the term insurance shall be converted, without medical examination, into such form or forms of insurance as may be prescribed by regulations and as the insured may request. Regulations shall provide for the right to convert into ordinary life, twenty payment life, endowment maturing at age sixty-two, and into other usual forms of insurance. . . ."

² The disbursements to June 30, 1933, for term and automatic insurance (the latter provided for those who were permanently and totally disabled or who died within 120 days after entrance into the service and before making application for term insurance) exceeded the premium receipts by \$1,166,939.057. Administrator of Veterans' Affairs, Report for Year 1933, p. 28. The annual cost of administration was estimated at \$1,744,038.56. Report of United States Veterans' Bureau for 1922, p. 465. War Risk Insurance was devised in the hope that it would, in large measure, avoid the necessity of granting pensions. Term insurance was issued at a very low premium rate. Over 4,684,000 persons applied before the armistice to the amount of about \$40,000,000,000 for War Risk term insurance; but over 75 per cent. of the men who carried term insurance while in the service never paid a premium after the war. See Report of Bureau of War Risk Insurance for 1920, pp. 5, 7, 41; Report of United States Veterans' Bureau for 1922, p. 456; for 1925, p. 268.

policies, although not entered into for gain, are legal obligations of the same dignity as other contracts of the United States and possess the same legal incidents.

War Risk Insurance, while resembling in benevolent purpose pensions, compensation allowances, hospital and other privileges accorded to former members of the army and navy or their dependent, differs from them fundamentally in legal incidents. Pensions, compensation allowances and privileges are gratuities. They involve no agreement of parties; and the grant of them creates no vested right. The benefits conferred by gratuities may be redistributed or withdrawn at any time in the discretion of Congress. *United States v. Teller*, 107 U. S. 64, 68; *Frisbie v. United States*, 157 U. S. 160, 166; *United States v. Cook*, 257 U. S. 523, 527. On the other hand War Risk policies, being contracts, are property and create vested rights. The terms of these contracts are to be found in part in the policy, in part in the statutes under which they are issued and the regulations promulgated thereunder.

In order to promote efficiency in administration and justice in the distribution of War Risk Insurance benefits, the Administration was given power to prescribe the form of policies and to make regulations. The form prescribed provided that the policy should be subject to all amendments to the original Act, to all regulations then in force or thereafter adopted. Within certain limits of application this form was deemed authorized by the Act, *White v. United States*, 270 U. S. 175, 180, and, as held in that case, one whose vested rights were not thereby disturbed could not complain of subsequent legislation affecting the terms of the policy. Such legislation has been frequent.³ Moreover, from time to time, privileges granted were voluntarily enlarged and new ones were given by the Government.⁴ But no power to curtail the amount of the benefits which Congress contracted to pay was reserved to Congress; and none could be given by any regulation promulgated by the Administrator. Prior to the Economy Act, no attempt was made to lessen the obligation of the Government.⁵ Then, Congress, by a clause of thirteen words included in a very long section dealing with gratuities, repealed "all laws granting or pertaining to yearly renewable term insurance." The repeal, if valid, abrogated outstanding contracts; and relieved the United States from all liability on the contracts without making compensation to the beneficiaries.

Second. The Fifth Amendment commands that property be not taken without making just compensation. Valid contracts are property, whether the obligor be a private individual, a municipality, a State or the United States. Rights against the United States arising out of a contract with it are protected by the Fifth Amendment. *United States v. Central Pacific R. Co.*, 118 U. S. 235, 238; *United States v. Northern Pacific Ry. Co.*, 256 U. S. 51, 64, 67. When the United States enters into contract relations, its rights and duties therein are governed

³ Extension of class of beneficiaries: Acts of June 25, 1918, c. 104, § 2, 40 Stat. 609; Dec. 24, 1919, c. 16, §§ 2, 3, 4, 13, 41 Stat. 371, 375; Aug. 9, 1921, c. 57, § 23, 42 Stat. 147, 155; May 29, 1928, c. 875, § 13, 45 Stat. 964, 967. Upheld: *White v. United States*, 270 U. S. 175.

Payment where beneficiary dies before exhaustion of policy: e. g., Dec. 24, 1919, c. 16, §§ 15, 16, 41 Stat. 371, 376; Aug. 9, 1921, c. 57, § 26, 42 Stat. 147, 156; June 7, 1924, c. 320, § 26, 43 Stat. 607, 614.

Payment where beneficiary incompetent: e. g., Dec. 24, 1919, c. 16, § 5, 41 Stat. 371; Mar. 2, 1923, c. 173, § 1, 42 Stat. 1374; July 2, 1926, c. 723, § 2, 44 Stat. 790, 791.

⁴ Reinstatement of lapsed policies: Aug. 9, 1921, c. 57, § 27, 42 Stat. 147, 156; Mar. 4, 1923, c. 291, § 7, 42 Stat. 1521, 1525; July 2, 1926, c. 723, §§ 15, 17, 44 Stat. 790, 799, 800.

Liability undertaken on certain policies which have lapsed through failure of payment of premiums, been cancelled by surrender or estoppel of later contract: e. g., Dec. 24, 1919, c. 16, § 12, 41 Stat. 371, 374; Aug. 9, 1921, c. 57, § 27, 42 Stat. 147, 156; July 3, 1930, c. 849, § 24, 46 Stat. 991, 1001.

Incontestability in favor of insured: Aug. 9, 1921, c. 57, § 30, 42 Stat. 147, 157; July 3, 1930, c. 849, § 24, 46 Stat. 499, 1001.

Administration may waive time for premium payment, grant various tolerances: Aug. 9, 1921, c. 57, §§ 24, 28, 42 Stat. 147, 155, 157; Mar. 4, 1923, c. 291, § 8, 42 Stat. 1521, 1526. Proceeds exempted from taxation: June 25, 1918, c. 104, § 2, 40 Stat. 609.

The War Risk Insurance Act provided for the conversion of yearly renewable term insurance into level premium insurance at any time within five years from the date of the termination of the war; and The World's War Veterans' Act of June 7, 1924, c. 320, § 304, 43 Stat. 607, 625, provided that all yearly renewable term insurance should cease on July 2, 1926. But provision for extending the period for conversion and for reinstatement was made by later statutes and by regulations issued thereunder; June 2, 1946, c. 449, 44 Stat. 686; May 29, 1928, c. 875, § 14, 45 Stat. 964, 968; July 3, 1930, c. 849, § 22, 46 Stat. 991, 1001; June 24, 1932, c. 276, 47 Stat. 334. See Reports of United States Veterans' Bureau for 1926, pp. 54-56; for 1927, pp. 23-25; Reports of Administrator of Veterans' Affairs for 1931, p. 32; for 1932, p. 42; for 1933, p. 28.

⁵ But compare Acts of June 25, 1918, c. 104, § 2, 40 Stat. 609; Aug. 9, 1921, c. 57, § 15, 42 Stat. 147, 152; March 4, 1923, c. 291, § 1, 42 Stat. 1521; March 4, 1925, c. 553, § 3, 43 Stat. 1302, 1303.

generally by the law applicable to contracts between private individuals.⁶ That the contracts of war risk insurance were valid when made is not questioned. As Congress had the power to authorize the Bureau of War Risk Insurance to issue them, the due process clause prohibits the United States from annulling them, unless, indeed, the action taken falls within the federal police power or some other paramount power.⁷

The Solicitor General does not suggest, either in brief or argument, that there were supervening conditions which authorized Congress to abrogate these contracts in the exercise of the police or any other power. The title of the Act of March 20, 1933, repels any such suggestion. Although popularly known as the Economy Act, it is entitled an "Act to maintain the credit of the United States." Punctilious fulfillment of contractual obligations is essential to the maintenance of the credit of public as well as private debtors. No doubt there was in March, 1933, great need of economy. In the administration of all government business economy had become urgent because of lessened revenues and the heavy obligations to be issued in the hope of relieving widespread distress. Congress was free to reduce gratuities deemed excessive. But Congress was without power to reduce expenditures by abrogating contractual obligations of the United States. To abrogate contracts, in the attempt to lessen government expenditure, would be not the practice of economy, but an act of repudiation. "The United States are as much bound by their contracts as are individuals. If they repudiate their obligations, it is as much repudiation, with all the wrong and reproach that term implies, as it would be if the repudiator had been a State or a municipality or a citizen." *Sinking-Fund Cases*, 99 U. S. 700, 719.

Third. Contracts between individuals or corporations are impaired within the meaning of the Constitution whenever the right to enforce them by legal process is taken away or materially lessened.⁸ A different rule prevails in respect to contracts of sovereigns. Compare *Principality of Monaco v. Mississippi*, ante, p. 313. "The contracts between a Nation and an individual are only binding on the conscience of the sovereign and have no pretensions to compulsive force. They confer no right of action independent of the sovereign will."⁹ The rule that the United States may not be sued without its consent is all embracing.

In establishing the system of War Risk Insurance, Congress vested in its administrative agency broad power in making determinations of essential facts—power similar to that exercised in respect to pensions, compensation, allowances and other gratuitous privileges provided for veterans and their dependents. But while the statutes granting gratuities contain no specific provision for suits against the United States,¹⁰ Congress, as if to emphasize the contractual obligation assumed by the United States when issuing War Risk policies, conferred upon beneficiaries substantially the same legal remedy which beneficiaries enjoy under policies issued by private corporations. The original Act provided in § 405:

"That in the event of disagreement as to a claim under the contract of insurance between the bureau and any beneficiary or beneficiaries thereunder, an action on the claim may be brought against the United States in the district court of the United States in and for the district in which such beneficiaries or any one of them resides."¹¹

Although consent to sue was thus given when the policy issued, Congress retained power to withdraw the consent at any time. For consent to sue the United States is a privilege accorded; not the grant of a property right protected by the Fifth Amendment. The consent may be withdrawn, although given after

⁶ Compare *United States v. Bank of the Metropolis*, 15 Pet. 377, 392; *The Floyd Acceptances*, 7 Wall. 666, 675; *Garrison v. United States*, 7 Wall. 688, 690; *Smoot's Case*, 15 Wall. 36, 47; *Vermilye & Co. v. Adams Express Co.*, 21 Wall. 138, 144; *Cooke v. United States*, 91 U. S. 389, 396; *United States v. Smith*, 94 U. S. 214, 217; *Hollerbach v. United States*, 233 U. S. 165, 171; *Reading Steel Casting Co. v. United States*, 268 U. S. 186, 188; *United States v. National Exchange Bank*, 270 U. S. 527, 534.

⁷ Compare *Lottery Case*, 188 U. S. 321; *Hipolite Egg Co. v. United States*, 220 U. S. 45, 58; *Hoke v. United States*, 227 U. S. 308, 323; *Hamilton v. Kentucky Distilleries & Warehouse Co.*, 251 U. S. 146; *Calhoun v. Massie*, 253 U. S. 170, 175. Compare *Home Building & Loan Assn. v. Blaisdell*, 290 U. S. 398, 430.

⁸ See *Worthen Co. v. Thomas*, ante, p. 426; and cases cited by Mr. Justice Sutherland in *Home Building & Loan Assn. v. Blaisdell*, 290 U. S. 398, 448.

⁹ Hamilton, *The Federalist*, No. 81.

¹⁰ See Sixth, *infra*, p. 587.

¹¹ The provision for suit was later modified. See *World War Veterans' Act 1924*, § 19, as amended by Act of July 3, 1930, c. 849, 46 Stat. 991, 992, under which these suits were brought.

much deliberation and for a pecuniary consideration. *DeGroot v. United States*, 5 Wall. 419, 432. Compare *Darrington v. State Bank*, 13 How. 12, 17; *Beers v. Arkansas*, 20 How. 527-529; *Gordon v. United States*, 7 Wall. 188, 195; *Railroad Co. v. Tennessee*, 101 U. S. 337; *Railroad Co. v. Alabama*, 101 U. S. 832; *In re Ayers*, 123 U. S. 443, 505; *Hans v. Louisiana*, 134 U. S. 1, 17; *Baltzer v. North Carolina*, 161 U. S. 240; *Baltzer & Taaks v. North Carolina*, 161 U. S. 246.¹² The sovereign's immunity from suit exists whatever the character of the proceeding or the source of the right sought to be enforced. It applies alike to causes of action arising under acts of Congress, *DeGroot v. United States*, 5 Wall. 419, 431; *United States v. Babcock*, 250 U. S. 328, 331; and to those arising from some violation of rights conferred upon the citizen by the Constitution, *Schillinger v. United States*, 155 U. S. 163, 166, 168. The character of the cause of action—the fact that it is in contract as distinguished from tort—may be important in determining (as under the Tucker Act) whether consent to sue was given. Otherwise, it is of no significance. For immunity from suit is an attribute of sovereignty which may not be bartered away.

Mere withdrawal of consent to sue on policies for yearly renewable term insurance would not imply repudiation. When the United States creates rights in individuals against itself, it is under no obligation to provide a remedy through the courts. *United States v. Babcock*, 250 U. S. 328, 331. It may limit the individual to administrative remedies. *Tutun v. United States*, 270 U. S. 568, 576. And withdrawal of all remedy, administrative as well as legal, would not necessarily imply repudiation. So long as the contractual obligation is recognized, Congress may direct its fulfillment without the interposition of either a court or an administrative tribunal.

Fourth. The question requiring decision is, therefore, whether in repealing "all laws granting or pertaining to yearly renewable term insurance" Congress aimed at the right or merely at the remedy. It seems clear that it intended to take away the right; and that Congress did not intend to preserve the right and merely withdraw consent to sue the United States.¹³ As Congress took away the contractual right it had no occasion to provide for withdrawal of the remedy. Moreover, it appears both from the language of the repealing clause and from the context of § 17 that Congress did not aim at the remedy. The clause makes no mention of consent to sue. The consent to sue had been given originally by § 405 of the Act of 1917, which, like the later substituted sections, applied to all kinds of insurance, making no specific reference to yearly renewable term policies. Obviously, Congress did not intend to repeal generally the section providing for suits.¹⁴ For in March 1933, most of the policies then outstanding were "converted" policies, in no way affected by the Economy Act.¹⁵

That Congress sought to take away the right of beneficiaries of yearly renewable term policies and not to withdraw their privilege to sue the United States, appears, also, from an examination of the other provisions of § 17. The section reads:

"All public laws granting medical or hospital treatment, domiciliary care, compensation and other allowances, pensions, disability allowance, or retirement pay to veterans and the dependents of veterans of the Spanish-American War, including the Boxer Rebellion and the Philippine Insurrection, and the World War, or to former members of the military and naval service for injury or disease incurred or aggravated in the line of duty in the military or naval service (except so far as they relate to persons who served prior to the Spanish-American War and to the dependents of such persons, and the retirement of officers and enlisted men of the Regular Army, Navy, Marine Corps, or Coast Guard) are hereby repealed, and all laws granting or pertaining to yearly renewable term insurance are hereby repealed, but payments in accordance with such laws shall continue

¹² Compare also *Imhoff-Berg Silk Dying Co. v. United States*, 43 F. (2d) 836, 841; *Synthetic Patents Co. v. Sutherland*, 22 F. (2d) 491, 494; *Kogler v. Miller*, 288 Fed. 806.

¹³ Veteran Regulation No. 8, promulgated March 31, 1933, pursuant to this Act provides: "V. Except as stated above [matter not here relevant] no payment may hereafter be made under contracts of yearly renewable term insurance (including automatic insurance) and all pending claims or claims hereafter filed for such benefits shall be disallowed."

¹⁴ See Note 11.

¹⁵ The number of "converted policies" in force June 30, 1933, was 616,069. Administrator of Veterans' Affairs, Report for 1933, pp. 25, 27.

to the last day of the third calendar month following the month during which this Act is enacted."¹⁶

That section deals principally with the many grants of gratuities to veterans and dependents of veterans. Congress apparently assumed that there was no difference between the legal status of these gratuities and the outstanding contracts for yearly renewable term insurance. It used in respect to both classes of benevolences the substantially same phrase. It repealed "all public laws" relating to the several categories of gratuities; and it repealed "all laws granting or pertaining to" such insurance. No right to sue the United States on any of these gratuities had been granted in the several statutes conferring them; and the right to the gratuity might be withdrawn at any time. The dominant intention was obviously to abolish rights, not remedies.

That Congress intended to take away the right under outstanding yearly renewable term policies, and was not concerned with the consent to sue the United States thereon, appears also from the saving clauses in § 17. These provide that "all allowed claims under the above referred to laws" are to be reviewed and the benefits are to be paid "where a person is found entitled under this Act"; and that "nothing contained in this section shall interfere with payments to be made under contracts of yearly renewable term insurance under which payments have commenced, or on any judgment heretofore rendered in a court of competent jurisdiction in any suit on a contract of yearly renewable term insurance, or which may hereafter be rendered in any such suit now pending." That is, the rights under certain yearly renewable term policies are excepted from the general repealing clause.¹⁷

Fifth. There is a suggestion that although, in repealing all laws "granting or pertaining to yearly renewable term insurance," Congress intended to take away the contractual right, it also intended to take away the remedy; that since it had power to take away the remedy, the statute should be given effect to that extent, even if void insofar as it purported to take away the contractual right. The suggestion is at war with settled rules of construction. It is true that a statute bad in part is not necessarily void in its entirety. A provision within the legislative power may be allowed to stand if it is separable from the bad. But no provision however unobjectionable in itself, can stand unless it appears both that, standing alone, the provision can be given legal effect and that the legislature intended the unobjectionable provision to stand in case other provisions held bad should fall. *Dorchy v. Kansas*, 264 U. S. 286, 288, 290. Here, both those essentials are absent. There is no separate provision in § 17 dealing with the remedy; and it does not appear that Congress wished to deny the remedy if the repeal of the contractual right was held void under the Fifth Amendment.

War Risk Insurance and the war gratuities were enjoyed, in the main, by the same classes of persons; and were administered by the same governmental agency. In respect of both, Congress had theretofore expressed its benevolent purpose perhaps more generously than would have been warranted in 1933 by the financial condition of the Nation. When it became advisable to reduce the Nation's existing expenditures, the two classes of benevolences were associated in the minds of the legislators; and it was natural that they should have wished

¹⁶ The rest of the section is as follows:

"The Administrator of Veterans' Affairs under the general direction of the President shall immediately cause to be reviewed all allowed claims under the above referred to laws and where a person is found entitled under this Act, authorize payment or allowance of benefits in accordance with the provisions of this Act commencing with the first day of the fourth calendar month following the month during which this Act is enacted and notwithstanding the provisions of section 9 of this Act, no further claim in such cases shall be required. *Provided*, That nothing contained in this section shall interfere with payments heretofore made or hereafter to be made under contracts of yearly renewable term insurance which have matured prior to the date of enactment of this Act and under which, payments have been commenced, or on any judgment heretofore rendered in a court of competent jurisdiction in any suit on a contract of yearly renewable term insurance, or which may hereafter be rendered in any such suit now pending: *Provided further*, That, subject to such regulations as the President may prescribe, allowances may be granted for burial and funeral expenses and transportation of the bodies (including preparation of the bodies) of deceased veterans of any war to the places of burial thereof in a sum not to exceed \$107 in any one case.

"The provisions of this title shall not apply to compensation or pension (except as to rates, time of entry into active service and special statutory allowances) being paid to veterans disabled, or dependents of veterans who died, as the result of disease or injury directly connected with active military or naval service (without benefit of statutory or regulatory presumption of service connection) pursuant to the provisions of the laws in effect on the date of enactment of this Act. The term 'compensation or pension' as used in this paragraph shall not be construed to include emergency officer's retired pay referred to in section 10 of this title."

¹⁷ Compare Veteran Regulation No. 8, March 31, 1933.

to subject both to the same treatment. But it is not to be assumed that Congress would have resorted to the device of withdrawing the legal remedy from beneficiaries of outstanding yearly renewable term policies if it had realized that these had contractual rights. It is, at least, as probable that Congress overlooked the fundamental difference in legal incidents between the two classes of benevolences dealt with in § 17 as that it wished to evade payment of the Nation's legal obligations.

Sixth. The judgments below appear to have been based, in the main, not on § 17 of the Economy Act, but on § 5 which provides:

"All decisions rendered by the Administrator of Veterans' Affairs under the provisions of this title, or the regulations issued pursuant thereto, shall be final and conclusive on all questions of law and fact, and no other official or court of the United States shall have jurisdiction to review by mandamus or otherwise any such decision."

This section, as the Solicitor General concedes, does not relate to War Risk Insurance. It concerns only grants to veterans and their dependents—pensions, compensation allowances and special privileges, all of which are gratuities. The purpose of the section appears to have been to remove the possibility of judicial relief in that class of cases even under the special circumstances suggested in *Crouch v. United States*, 266 U. S. 180; *Silberschein v. United States*, 266 U. S. 221; *United States v. Williams*, 278 U. S. 255; *Smith v. United States*, 57 F. (2d) 998. Compare *United States v. Meadows*, 281 U. S. 271.

Seventh. The Solicitor General concedes that in No. 861 no question is presented except that of jurisdiction dependent upon the construction of the clause in § 17 of the Economy Act discussed above. He contends in No. 855, that if jurisdiction is entertained, the demurrer should be sustained on the ground that the complaint fails to set forth a good cause of action, since it fails to show that the suit was brought within the period allowed by law. This alleged defect was not pleaded or brought to the attention of either of the courts below. Nor was it brought by the Solicitor General to the attention of this Court when opposing the petition for a writ of certiorari. We do not pass upon that question, which like others relating to the merits, will be open for consideration by the lower courts upon the remand.

Eighth. Mention should be made of legislation by Congress enacted since the commencement of these suits.

1. Act of June 16, 1933, c. 101, § 20, 48 Stat. 309 provides:

"Notwithstanding the provisions of section 17, title I, Public Numbered 2, Seventy-third Congress, any claim for yearly renewable term insurance on which premiums were paid to the date of death of the insured . . . under the provisions of laws repealed by said section 17 wherein claim was duly filed prior to March 20, 1933, may be adjudicated by the Veterans' Administration on the proofs and evidence received by Veterans' Administration prior to March 20, 1933, and any person found entitled to the benefits claimed shall be paid such benefits in accordance with and in the amounts provided by such prior laws. . . ."

2. Section 35 of the Independent Offices Appropriation Act of 1935, passed on March 27–28, 1934, over the President's veto, provides:

"That notwithstanding the provisions of section 17 of title I, of an Act entitled 'An Act to maintain the Credit of the United States Government' approved March 20, 1933, and section 20 of an Act entitled 'An Act making appropriations for the Executive offices, etc. . . .' approved June 16, 1933, any claim for yearly renewable term insurance under the provisions of laws repealed by said section 17, wherein claim was duly filed prior to March 20, 1933, and on which maturity of the insurance contract had been determined by the Veterans' Administration prior to March 20, 1933, and where payments could not be made because of the provisions of the Act of March 20, 1933, or under the provisions of the Act of June 16, 1933, may be adjudicated by the Veterans' Administration and any person found entitled to yearly renewable term insurance benefits claimed shall be paid such benefits in accordance with and in the amounts provided by such prior laws."²⁸

The provision in the Act of June 16, 1933, which was enacted before the entry of judgments by the district courts, does not appear to have been considered by the lower courts. The provision in the Act of March 27–28, 1934, was enacted after the filing in this Court of the petitions for certiorari but before the writs were granted. As neither of these Acts was referred to by the Solicitor General

²⁸ See instructions issued April 11, 1934, by the Administrator of Veterans' Affairs, pursuant to the Act of March 27–28.

or by counsel for the petitioners, we assume that there is nothing in them, or in any action taken thereunder, which should affect the disposition of the cases now before us. Any such matter also will be open for consideration by the lower courts upon the remand.

Reversed.

VIII. IN THE SUPREME COURT OF THE UNITED STATES, OCTOBER TERM, 1936, GUY T. HELVERING, COMMISSIONER OF INTERNAL REVENUE, AND WILLIAM M. WELCH, COLLECTOR OF INTERNAL REVENUE FOR THE DISTRICT OF MASSACHUSETTS, AND THE EDISON ELECTRIC ILLUMINATING COMPANY OF BOSTON ET AL., PETITIONERS *v.* GEORGE P. DAVIS, ON WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE FIRST CIRCUIT—NO. 910

BRIEF FOR PETITIONERS HELVERING AND WELCH

OPINIONS BELOW

The opinion of the District Court is reported in 18 F. Supp. 1. The opinion of the Circuit Court of Appeals for the First Circuit (R. 26-31) has not yet been officially reported.

JURISDICTION

The judgment of the Circuit Court of Appeals for the First Circuit was entered on April 14, 1937 (R. 31). The petition for a writ of certiorari was filed on April 20, 1937, and was granted on April 26, 1937 (R. 33). The jurisdiction of this Court is invoked under Section 240 (a) of the Judicial Code, as amended by the Act of February 13, 1925.

QUESTIONS PRESENTED

1. Where the tax imposed upon employees by Section 801 of the Social Security Act is in issue in this case.
2. Whether the tax imposed upon employees by Section 801 is a valid exercise of the power of Congress under Article I, Section 8, Clause 1 of the Constitution.
3. Whether the tax imposed upon employers by Section 804 is a valid exercise of the power of Congress under Article I, Section 8, Clause 1 of the Constitution.
4. Whether a taxpayer under Title VIII has a standing to question the old age benefits provided for in Title II of the Social Security Act.
5. Whether the provision made in Title II of the Social Security Act for old age benefits is a valid exercise of the power of Congress under Article I, Section 8, Clause 1 of the Constitution.
6. Whether, if they be taken together, the taxes imposed by Title VIII of the Social Security Act and the old age benefits contemplated by Title II of the Social Security Act constitutes an exercise of powers not granted to Congress.
7. Whether the taxes imposed by Title VIII violate the Fifth Amendment.

STATUTE INVOLVED

The Social Security Act (Act of August 14, 1935, c. 531, 49 Stat. 620, U. S. C., Supp. II, Title 42, c. 7) is divided into eleven independent titles, many of which might well have been enacted as separate statutes. For the convenience of the Court, the entire Act is set forth in the Appendix, pp. 1-63.

Of the eleven titles only two (Titles VII and XI) are of general application to the entire Act. Title VII provides for the creation of a Social Security Board to perform such functions as may be imposed upon it by other parts of the Act. Title XI consists of general provisions such as certain basic definitions, provision for administrative rules and regulations, a separability clause, a reservation of the right to alter, amend, or repeal any provision of the Act, and finally, a section giving the Act its name, the "Social Security Act."

In this proceeding Title VIII alone, of the substantive titles, can impinge upon respondent's stock equity. No other title can possibly be involved unless it be Title II, which authorizes appropriations and provides terms for benefit payments to individuals.

TITLE VIII

Title VIII imposes two distinct types of taxes, each beginning in the calendar year 1937.

It imposes upon *employers*, *excise* taxes with respect to having individuals in their employ, measured by wages paid during the calendar year [Section 804]. It also imposes upon *employees*, *income* taxes measured by wages paid to them during the calendar year [Section 801].

Neither tax is applicable to certain types of employment, such as agricultural labor, domestic service, service for the national or state governments, and services performed by individuals who have attained the age of 65 years. Section 811 (b).

Both the employers' excise tax and the employees' income tax are at the same rate. Sections 801, 804. For the years 1937 to 1939, inclusive, the rate for each tax is fixed at 1 percent. Thereafter the rate increases $\frac{1}{2}$ of 1 percent every 3 years, until, after December 31, 1948, the rate for each tax reaches 3 percent. In the computation of each tax there is required to be included all that the employer pays the employee, except that there need not be included whatever in excess of \$3,000 is payable by any one employer to any one of his employees in one year. Section 811 (a).

The tax imposed on employees by Section 801 is collected by the employer of the taxpayer by deducting the amount of the tax from the employee's wages. Section 802 (a). Each employer is made liable for the payment of his employees' taxes, but is indemnified against the claims and demands of any person for the amount of any such payment. *Ibid.*

The proceeds of both taxes are required to be paid into the Treasury of the United States as internal revenue collections, and neither tax is earmarked in any way. Section 807.

Mechanically, as to payment, filing returns, penalties, and the like, Title VIII operates in the manner customarily employed in internal revenue legislation. *Ibid.*

TITLE II

Title II relates to Old Age Benefits. These are gratuities (not based on contract, but based on a Congressional direction expressly subject to amendment or repeal [Section 1104]), to be paid by the national government directly to individual persons.¹ The Title states to whom benefits are to be paid and how they are to be measured. It also states what methods are to be utilized in preparing for, and in actually making, benefit payments under this Title. It does not endeavor to particularize any funds in the Treasury as the source of appropriations for benefit payments.

A. DESCRIPTION OF BENEFITS

Title II provides for two general types of benefits, each to be given directly by the national government to individual persons: one, monthly pensions; the other, lump-sum payments. Viewed in the light of the legislative history of the Social Security Act, as well as the anticipated operation of the statute, the monthly pensions or benefits are by far the more important. Furthermore, the monthly pensions will be paid more frequently and will involve a much larger distribution of money than the lump-sum payments.²

Before describing either general type of benefit, we note that in the computation of each there enters the element of wages. But, as used in these computations, "wages" *never* include: (1) wages paid prior to January 1, 1937 [Sec-

¹ This Title should be sharply distinguished from Title I, which provides subventions to States in aid of, and to match, state expenditures for aged persons. This Title I authorizes Congress to appropriate not to exceed fifty million dollars for the fiscal year 1935-36 and "an amount sufficient" for subsequent years for federal aid to the states for old age assistance. Old age assistance is defined as public aid extended to "needy individuals" who are above sixty-five years of age and who are not inmates of any public institution.

The federal aid to any State for this purpose is limited to 50 percent of the total expenditures for old age assistance by the State and its political subdivisions and to not more than \$15 per month for any individual who is given assistance. This aid must be expended exclusively for the actual payment of old age assistance, but, in addition, aid equal to 5 percent of such federal grants for old age assistance is allotted to the States for the administration of such assistance.

Grants under this title are to be made only to States which have a state plan for old age assistance which the Social Security Board finds conforms with standards set forth in the federal act. Section 2, Appendix, p. 2-3.

² See Appendix, pp. 78-79, Tables 14, 15.

tions 202, 203, 204]; (2) whatever in excess of \$3,000 one employer pays to any one of his employees in one year [Section 210 (a)]; (3) wages paid after a man reaches 65 [Sections 202 and 204]; and (4) wages paid for agricultural labor, domestic service, service for the national or state governments, and service in a few other excluded employments [Section 210 (b)].

The principal type of benefit, as we have just indicated, is a *monthly pension* or benefit paid to a person after he has attained the age of 65 [Section 202]. This benefit is available only to one (a) who has worked for at least one day in each of at least 5 separate years since December 31, 1936 [Sections 202 (a) and 210 (c)], (b) who has earned at least \$2,000 since December 31, 1936 [*ibid.*], and (c) who is not then receiving "wages with respect to regular employment" [Section 202 (d)]. The benefit is measured by a percentage of the "wages" that have been paid to the beneficiary in employment covered by the Title [Sections 202, 210]. The percentage is not uniform for all wages, but is on a descending or degressive scale [Section 202 (a)]. Moreover, there is a top limit of \$85 to these monthly pensions. These limitations, taken together with the second limitation mentioned in the preceding paragraph, make it certain that the monthly pensions paid to aged persons will be conservative in amount.*

In addition to monthly pensions, provision is also made for "lump sum payments" which are of incidental significance. These payments are made in four situations:

(1) If through an administrative error or delay a person who is receiving a monthly pension dies before he receives the correct amount, the amount which should have been paid to him is paid in a lump sum to his estate [Section 203 (c)].

(2) If a person who has earned wages in each of at least 5 separate years since December 31, 1936, and who has earned in that period more than \$2,000, dies *after* attaining the age of 65, but before he has received in monthly pensions an amount equal to 3½ percent of the "wages" paid to him between January 1, 1937, and the time he reaches 65, then there is paid in a lump sum to his estate the difference between said 3½ percent and the total amount paid to him during his life as monthly pensions [Section 203 (b)].

(3) If a person who has earned wages since December 31, 1936, dies *before* attaining the age of 65, then there is paid to his estate 3½ percent of the "wages" paid to him between January 1, 1937, and his death [Section 203 (a)].

(4) If a person has, since December 31, 1936, earned wages in employment covered by Title II, but has attained the aged of 65 either without working for at least one day in each of 5 separate years since 1936, or without earning at least \$2,000 between January 1, 1937, and the time he attains 65, then there is paid to him [or to his estate, Section 204 (b)], a lump sum equal to 3½ percent of the "wages" paid to him between January 1, 1937, and the time he attained 65 [Section 204 (a)].

B. DESCRIPTION OF THE ADMINISTRATIVE METHODS UTILIZED IN PREPARING FOR, AND IN MAKING, OLD AGE BENEFIT PAYMENTS UNDER TITLE II

We now turn to the source of Old Age Benefits paid under Title II.

These benefits are not paid from the taxes collected under Title VIII, except in the sense that all governmental expenses are paid out of all governmental receipts. Collections under Title VIII are not earmarked for any special purpose. [Section 807 (a).]

These benefits are not directly and immediately (but only indirectly and ultimately) paid out of the taxes, loans, and miscellaneous receipts which constitute the general fund of the Treasury. The benefits are paid directly and immediately out of a special account known as the "Old-Age Reserve Account", created in the Treasury of the United States by Section 201.⁴

This Account receives its funds out of the general fund of the Treasury, and then only when Congress so directs by an appropriation act.⁵ No appropriation

* See footnote 1, p. 80, *infra*. The House Committee on Ways and Means, 74th Cong., 1st Sess., in its report on the bill which became the Social Security Act, Report No. 615, p. 6, included a table to illustrate monthly Old Age Benefits under Title II. See Appendix, p. 64, Table 1, p. 78, Table 14.

⁴ That all Old Age Benefits are to be paid from this Account is indicated by Section 201 (b) and (e) of the Social Security Act, as well as by the "First Deficiency Appropriation Act, Fiscal Year 1936", Act of June 22, 1936, c. 689, 49 Stat. 1597, 1635.

⁵ See Testimony of Daniel W. Bell, Assistant to the Secretary of the Treasury, and Acting Director of the Budget in the Hearings Before the Subcommittee of the Committee on Appropriations, House of Representatives, 75th Cong., 1st Sess., on the Treasury Department Appropriation Bill for 1938, p. 71.

was contained in the Social Security Act itself. The Congressional direction has been embodied, and will be embodied, in annual appropriation acts.⁶ The annual appropriation acts, however, have followed and presumably will follow the authority conferred by Section 201 (a) of the Social Security Act, which is printed in the margin.⁷ The effect of that section is merely to permit the House of Representatives to consider an appropriation to the Account without the risk of being subject to a point of order.⁸

Although Section 201 (a) of the Act gives the authority for, it does not place a *dollar* limit upon, annual appropriations. Instead it takes as the maximum limit for annual appropriations the standard of accepted actuarial principles.

However, no single standard of accepted actuarial principles was written into the Act.⁹ Thus the Secretary of the Treasury and the Director of the Budget are free to recommend, and Congress is free to consider without being subject to a point of order, a bill drafted upon the basis of any accepted actuarial principles.¹⁰ In point of fact, during the last two fiscal year,¹¹ the executive officers have recommended and Congress has considered only a proposal which appropriates to the Account the amount necessary so that at any time the Account will have on hand the difference between the then value of future benefit payments under Title II and the then value of future taxes under Title VIII. But, in the future, the executive officers are free to recommend, and the Congress is free to entertain without risk of a point of order, an appropriation bill drafted on the basis of entirely different "accepted actuarial principles." This implies a great latitude, as footnote 9 on pages 11-12, *supra*, indicates. The amount may vary by as much as 4½ billion dollars in a single year.

We have thus far been considering the possible annual appropriations under Title II in relation to possible annual collections under Title VIII in order to show that there is no immediate budgetary equivalence between the two titles. Whether, in the long run, there will be a budgetary equivalence between appropriations under Title II and tax receipts under Title VIII depends on so many

⁶ For example, for the current fiscal year it received 265 million dollars as a result of the "First Deficiency Appropriation Act, Fiscal Year 1936", Act of June 22, 1936, c. 689, 49 Stat. 1597, 1635.

⁷ SECTION 201. (a) There is hereby created an account in the Treasury of the United States to be known as the "Old-Age Reserve Account" hereinafter in this title called the "Account." There is hereby authorized to be appropriated to the Account for each fiscal year, beginning with the fiscal year ending June 30, 1937, an amount sufficient as an annual premium to provide for the payments required under this title, such amount to be determined on a reserve basis in accordance with accepted actuarial principles, and based upon such tables of mortality as the Secretary of the Treasury shall from time to time adopt, and upon an interest rate of 3 per centum per annum compounded annually. The Secretary of the Treasury shall submit annually to the Bureau of the Budget an estimate of the appropriations to be made to the Account.

⁸ Rule XXI, Clause 2, Jefferson's Manual and Rules of the House of Representatives.

⁹ Section 201 authorizes a premium "determined on a reserve basis in accordance with accepted actuarial principles." At least three different formulae would seem to meet that test. (1) It would be in accordance with accepted actuarial principles to take a uniform or level or straight-line premium, so that each year there would be appropriated the same amount. The Government Actuary, Mr. R. R. Reagh, informs us that it is likely that this method would involve a premium of something over 1.8 billion dollars annually in perpetuity. There are variations in this theory, as well as in the estimates, under this principle.

(2) Or it would be in accordance with accepted actuarial principles to appropriate each year to the Account the amount necessary to put the Account in funds to meet all benefits which had accrued. Since benefits accrue at a more rapid rate in the first years of a man's employment [and since this approach would require funds sufficient to cover theoretically possible claims under Sections 203 (a) and 204, as well as under Section 202], this actuarial principle would, it has been estimated, involve initial premium for the calendar year 1937 of 5 billion dollars. A. J. Altmeyer, Chairman, Social Security Board, Hearings Before the Committee on Finance, Senate, 75th Cong., 1st Sess., on S. Con. Res. 4 (Feb. 22, 1937), p. 3. Indeed, if a margin of safety is to be allowed, the initial premium for the calendar year 1937 might well be 6 billion dollars.

(3) Or it would be in accordance with accepted actuarial principles to appropriate each year the amount necessary so that at any time the Reserve Account will have on hand the difference between the then value of future benefit payments under Title II and the then value of future taxes under Title VIII. It is this third principle which Congress has, up to date, followed. Sen. Rep. No. 628, 74th Cong., 1st Sess., p. 9, their table IV. See testimony of Mr. Reagh, the Government Actuary, in the Hearings Before the Subcommittee of the Committee on Appropriations, House of Representatives, 75th Cong., 1st Sess., on the Treasury Department Appropriation Bill for 1938, p. 72, line 8, *et seq.*, p. 73.

¹⁰ Witte, E. E., *Old Age Security in the Social Security Act*, Journal of Political Economy, Vol. 45, No. 1, p. 20 (Feb. 1937), suggests that Congress would be acting within the authority conferred by Section 201 if it appropriated to the Account only enough to meet benefit withdrawals in the ensuing year, since it involves a sum smaller than the maximum authorized by Section 201.

¹¹ "First Deficiency Appropriation Act, Fiscal Year, 1936", Act of June 22, 1936, c. 689, 49 Stat. 1597, 1635. H. R. 4720, 75th Congress, 1st Sess. "A Bill making Appropriations for the Treasury and Post Office Departments for the Fiscal Year ending June 30, 1938, and for other purposes." See also footnote 5, pp. 9-10, *supra*.

varying factors, economic, social and political, that no one can make more than a guess. Quite apart from other factors, for instance, a change in average wage levels no greater than we have seen in the last decade might produce tax receipts some hundreds of million dollars a year in excess of the necessary appropriations. This and other variable items render any schedule of estimated appropriations, even assuming adherence to a particular actuarial theory, subject to wide and increasing margins of probable error.

In short, an examination of Section 201, and of the Social Security Act as a whole, discloses: first, that the benefits to be paid under Title II will not flow directly from the taxes collected under Title VIII, and, second, that the amount to be appropriated pursuant to the authority conferred under Title II is not certain to bear any immediate budgetary equivalence¹² to the taxes collected under Title VIII.¹³

STATEMENT

On November 17, 1936, the respondent, George P. Davis, a stockholder in The Edison Electric Illuminating Company of Boston, filed a bill in equity against his corporation in the United States District Court for the District of Massachusetts. He alleged that the taxes imposed by Section 801 (collection of which is provided for in Section 802) and Section 804 of the Social Security Act are unconstitutional; that he had so advised the defendant corporation; that the corporation nevertheless proposed to make the payments required by those Sections; and that further appeals to the defendant or its officers would be useless. And after an allegation of threat of irreparable injury, he prayed that the corporation be enjoined from making the aforesaid payments and that "Sections 802 and 804 be held to be not an Act of the Congress within its powers under the Constitution of the United States * * *" (R. 2-5).

The defendant corporation filed its answer on November 25, 1936 (R. 6-7).

Thereupon, the United States Commissioner of Internal Revenue and the United States Collector of Internal Revenue for the District of Massachusetts, the petitioners herein, sought, and on November 30, 1936, were permitted to intervene as defendants (R. 9-12). Once admitted, the intervening defendants filed two pleadings. The first was a motion to strike so much of the bill as related to the tax upon employees (Section 801) on the ground that the defendant employer, not being subject to tax under those provisions, does not have any standing to challenge the validity of that tax, and that the plaintiff stockholder whose rights are no greater than those of his corporation has even less standing to assail its validity (R. 12). The second was an answer which (1) restated the point raised in the motion to strike, (2) denied that the taxes imposed by Title VIII are unconstitutional, and (3) averred that the bill sets forth no facts which, if true, would entitle the plaintiff to the relief prayed for (R. 13-18).

The District Court concluded that the tax upon employees was not properly in issue and that the tax upon employers was constitutional. It thereupon denied the prayer for an injunction and dismissed the bill (R. 22). The Circuit Court of Appeals reversed, Judge Bingham dissenting (R. 26-31).¹⁴

SUMMARY OF ARGUMENT

I

Both the income tax upon employees and the excise tax upon employers imposed by Title VIII are challenged in this proceeding. However, since the employer is merely a withholding agent with respect to the employee tax, it is clear that

¹² We have shown that because of the varying standards of appropriation possible under Section 201, there is no certainty how much Congress will appropriate pursuant to the authority there conferred. Of course, another reason why there is no such certainty is that future Congresses may not exercise to the full the authority conferred by the Seventy-Fourth Congress. No Congress is bound to make any appropriation. Thus there is a further support for our statement that there is no necessary immediate budgetary equivalence between Title II and Title VIII.

¹³ We believe that the foregoing epitome of Title II covers every point that is of legal significance in this case. But, for the possible convenience of the Court, we have summarized in Appendix D: (1) the method to be followed by the Secretary of the Treasury in investing the funds in the Account while awaiting the presentation of Old Age Benefit claims; and (2) the economic and political considerations which led Congress to establish a reserve for future disbursements under Title II instead of relying upon a pay-as-you-go policy.

¹⁴ The opinion of the Circuit Court of Appeals incorporates by reference much of its discussion in *Davis v. Boston & Maine R. Co.*, decided on the same day. For the convenience of the Court the latter opinion has been reprinted in the Appendix at pp. 80-143.

neither the corporation nor respondent stockholder may ask for relief against that tax, predicated upon its asserted invalidity.

But even if both taxes are properly in issue in this case, they will be found to be a valid exercise of the taxing power under the Constitution, Article I, Section 8, Clause 1. The employee tax is a special income tax (*cf. United States v. Hudson*, No. 97, January 11, 1937), and the employer tax is an excise. Both comply with the requirement of uniformity, since the rule of liability is the same throughout the United States.

These taxes are true taxes, their purpose being simply to raise revenue. No compliance with any scheme of Federal regulation is involved. The proceeds are paid unrestricted into the Treasury as internal revenue collections, available for the general support of the Government. Although Congress may have anticipated that over a period of years the taxes would roughly offset the drain upon the Treasury to be occasioned by the wholly independent appropriations authorized under Title II, such rough budgetary equivalence is not sufficient to deprive Title VIII of its quality as a true taxing measure.

II

To the extent that the Circuit Court of Appeals declared the expenditure under Title II as not being for the general welfare, it erred in undertaking at all to pass upon the validity of Title II. The rule of *Frothingham v. Mellon*, 262 U. S. 447, which denies a taxpayer the standing to question the propriety of any expenditures from the Federal Treasury, is applicable here. That rule has been relaxed only where the tax avails are earmarked for a specific purpose. It has never been thought that a mere rough budgetary relationship—such as nearly always exists between new taxes and new expenditures—is sufficient to justify a departure from the general rule. And it is clear herein, not only that the avails of these taxes are not earmarked, but also that there is no exact equivalence between the anticipated revenues and expenditures.

III

The power of Congress to appropriate for the general welfare granted by Article I, Section 8, Clause 1 of the Constitution is a broad power not limited by or to the other enumerated powers of Congress. *United States v. Butler*, 297 U. S. 1. Whether any particular expenditure is for the general welfare is a matter completely within the determination of Congress. *United States v. Teller*, 107 U. S. 64, 68. In any event the decision of Congress is not reviewable by the courts if by any "reasonable possibility it is for the general welfare." *United States v. Butler*, 297 U. S. 1, 65.

The expenditures in the present case are clearly well within the limits of the power of Congress. The number of aged persons in this country is rapidly increasing; workers in urban industrialized civilization usually arrive at old age without adequate means for self-support, as is demonstrated not only by their earning powers during their working lifetime but by various studies which have been made of the extent of dependency of people over 65 years of age. Those who are able to call upon their children for support only aggravate the evil by depriving the younger members of the family of the resources which they need. Voluntary industrial pension plans cover but a few. Private charity is inadequate to cope with the problem. Even state old age benefit laws present grave administrative and financial problems.

In the light of the above facts, we submit that there can be no doubt that the expenditures contemplated by Title II are for the general welfare of the United States.

Moreover, the form of the expenditures is soundly designed to promote general welfare. The statute excludes employed aged persons, thereby providing a simple and easily administered means test which is legally sufficient. *Mountain Timber Co. v. Washington*, 243 U. S. 219, 230. The payments themselves are graduated both by wages and length of employment so as to provide an incentive to work, and at the same time roughly to relate benefits to past standards of living. The incidental lump sum payments under Sections 203 and 204 accord with the general purpose of the plan and also serve to simplify its administration. The exclusions from benefits are based upon sound administrative and economic reasons.

IV

Since Title VIII and Title II severally constitute valid exercises of Congressional power, they cannot be invalid when considered jointly. Even if it be said that the avails of the taxes are earmarked, that fact does not deprive the taxes of their quality as true taxes. Nor are the taxes any the less true taxes if it be said that the proceeds are earmarked for the payment of benefits to a particular group. If the payment of benefits under Title II is an expenditure for the general welfare, then a levy for the purposes of providing funds for such expenditure must *ipso facto* be a tax within the meaning of the Constitution. The determination that the expenditures are for the general welfare is a determination that they are for the benefit of the taxpayers as well as for the benefit of the direct recipients of the expenditures. It has never been supposed that a tax ceases to be one for the general welfare because the immediate application of the proceeds is to one group of the population. *Clark v. Poor*, 274 U. S. 554; *Gillum v. Johnson*, 62 P. (2nd) 1037, 1044 (Calif. Sup. Ct.); *Beeland Wholesale Grocery Co. v. Kaufman*, decided by the Supreme Court of Alabama, March 17, 1937. "The Constitutional power to levy taxes does not depend upon the enjoyment by the taxpayer of any special benefit from the use of the proceeds raised by taxation." *Nashville, C. & St. L. Ry. v. Wallace*, 288 U. S. 249, 268; *Carley & Hamilton v. Snook*, 281 U. S. 96; *Knights v. Jackson*, 260 U. S. 12, 15.

Titles II and VIII do not, when considered together, constitute a regulatory scheme. The Act does not require retirement from employment and has no significant tendency to induce it. The Act cannot be said to constitute a plan for compulsory insurance within the accepted meaning of the term "insurance." Compare *Lynch v. United States*, 292 U. S. 571, 576-577. But whether or not the plan of the Act may properly be designated as old age insurance is immaterial, since it involves nothing more than a valid exercise of the taxing power and valid expenditures for the general welfare having no regulatory incidents. Compare *McCulloch v. Maryland*, 4 Wheat. 315. There is no enforced addition to wages and consequently the Act does not constitute a regulation of the wage relationship. The Tenth Amendment has no application, since Congress has only exercise its granted powers. *Ashwander v. Tennessee Valley Authority*, 297 U. S. 288, 330. The tax and expenditures are not forbidden to the Federal Government merely because the States themselves might legitimately lay similar taxes and make similar expenditures. *Hoke v. United States*, 227 U. S. 308, 322.

For these reasons, the decisions in *United States v. Butler*, 297 U. S. 1, and *Railroad Retirement Board v. Alton R. R.*, 295 U. S. 330, have no application.

V

The taxes do not violate the Fifth Amendment. Not only are the various selections of employments for taxation well within the power of Congress (*Sonzinsky v. United States*, No. 614, decided March 29, 1937), but they are of the type long sanctioned.

The provision limiting the amount of taxable wages to \$3,000 is likewise valid. Congress has as full discretion in determining how far it will exercise the taxing power as it has in selecting the subjects for taxation. This provision will be found justified by precedent as well as by its reasonable tendency to avoid double taxation.

PRELIMINARY STATEMENT

This action was commenced in November 1936. The first tax became due March 1, 1937. Since it was apparent that at some time this tax would be subjected to a constitutional test the Government bent every effort toward an early determination in the hope of getting final decision before the due date of the tax. The case was submitted to the Circuit Court of Appeals after this Court denied certiorari in the companion case under the Social Security Act affecting taxes under Title IX (*Davis v. Boston & Maine Railroad*, certiorari denied Jan. 4, 1937). The routing through the Circuit Court of Appeals has thus necessarily delayed decision beyond the due date of the tax.

Each month of delay in a definite settlement of the constitutionality of Title VIII raises for the Government most serious budgetary, fiscal and administrative problems which are equally important to the taxpayers. It is for this reason that the Government waives any technical objections whatever arising out of the stockholder's suit and desires to have a decision on the constitutionality of the

statute and not merely on procedural points. The latter would leave the validity of the tax undecided and, under the shadow of the Circuit Court of Appeals' opinion, a multiplicity of litigations would be certain to result, as well as utter confusion in budgetary and fiscal matters, in tax collecting administration, and in the Social Security Board. The reasons which impelled us to waive objections to the form of the action, and impel us to waive them here, and to urge decision on the merits are as follows:

1. *Budgetary and Fiscal Reasons.*—Tax collections under this Title in the budget for the fiscal year 1938 are estimated at \$253,300,000 for the fiscal year 1937, and at \$621,800,000 for the fiscal year 1938. Congressional appropriations have been made and are being made in contemplation of such receipts. Brief experience indicates that the estimates are sound. Thus, there has been collected \$19,444.25 during the month of January 1937, \$13,908,989.67 during the month of February 1937, and \$44,000,516.65 during the month of March 1937. These amounts represent both the employees' tax and the employers' tax under Title VIII of the Act.

If the constitutional question should be decided adversely to the government, Congress must not only find other sources of revenue to substitute therefor in appropriations already made and likely to be made but it must find revenue to provide for the refund of the collections under the Act, and the amount of interest thereon, which would be substantial and would increase with the delay in the decision.

Moreover, the decision as to the maturities of obligations to be issued by the Treasury in its future financing must of necessity be profoundly influenced by whether the taxes levied under Title VIII of the Social Security Act are valid. The aggregate receipts from Title VIII taxes during the next 5 fiscal years are roughly estimated at approximately 3 billions. During the succeeding 5 years these tax collections are estimated to be in excess of an additional 5 billions. It is contemplated that, since expenditures under the Social Security Act will not be equivalent to more than a small part of these collections, the great bulk of tax collections under Title VIII will be available for reductions in the aggregate amount of the public debt outstanding in the hands of the public. If the constitutionality of this tax is upheld it would obviously be desirable for the Treasury in its refunding and new borrowing operations to concentrate maturities very heavily during the period of large tax collections relative to expenditures for old age benefits. On the other hand, if this Title is held to be unconstitutional, the Secretary of the Treasury will have to base his calculations on different factors.

2. *Administrative Reasons.*—Title VIII imposes the largest tax collecting task ever attempted by the United States Treasury. It requires 2,500,000 returns per month to be made by employers covering their own and their employees' taxes. This requires that the Bureau of Internal Revenue and the offices of collectors be geared to handle more than 2,500,000 returns per month with capacity for their receipt, listing for assessment and auditing. Machinery for ascertaining and requiring delinquent returns must be set in motion, involving the assertion of interest and penalties which may be legally due, and acting upon explanation of delinquency and adjusting offers in compromise where a tax has accrued and can not be paid. This machinery must be maintained if the tax is valid, and abandoned if the tax is not. It is of utmost importance that the government know which way it is to proceed.

In event that this tax is held unconstitutional, refunds will be in order to some 26 million employee taxpayers and approximately 2½ million employers. This would be the most stupendous refund program ever faced. It would require financing, verifications of claims, and computation of interest. The problem of so vast a number of refunds to employees, most of them in small amounts, would have to be faced. The refunds probably could only be made to the employees, for many change places of employment and, in any event, the employer has been a mere agent for collection at the source.

3. *Effect of Period of Uncertainty.*—The tax under Title VIII now stands in a similar position to that which confronted the government in connection with the taxes imposed under the Agricultural Adjustment Act. The District Court for the District of Massachusetts upheld those taxes as it has upheld these. The Circuit Court of Appeals for the First Circuit reversed the lower court by a 2-1 decision as it has done here. Under that impetus an avalanche of suits, numbering approximately 2,000, seeking to restrain the collection of those taxes began to descend upon the Department of Justice and the various Collectors of Internal Revenue. The number of taxpayers under this Act is much greater

than under the Agricultural Adjustment Act. It is not unlikely that, if a decision of this question be postponed until the next term, an unprecedented number of injunction suits will be commenced all over the United States.

It is safe to assume, furthermore, that many employers either with or without instituting action will cease filing returns or paying taxes, or both, unless there is early decision by the Court, and that number will increase with each month that passes before validity is determined. These delinquencies, in case the law is sustained, will create serious problems. In many cases employers may cease to deduct the tax from employees' wages.

If employers, financially able to institute and maintain legal proceedings in jurisdictions in which injunctions are granted, hinder the collection of taxes, they will thereby temporarily secure to themselves a competitive advantage over employers who cannot afford such proceedings or who are friendly to the purposes of the Act. Extensions of time will be sought, which the Commission has only limited authority to grant.

These disadvantages to the government are paralleled by equal disadvantages to the taxpayers. Some large concerns are installing or contemplating installation of additional accounting machinery to take care of the making of returns and keeping of the records necessary under the Act. Price levels for products have been or are being readjusted to include the tax. The economy of the country is adjusting itself to the distribution of this burden, and grave inequities will result if this process is allowed to continue in a period of uncertainty.

For these reasons the government feels compelled to waive any objection which it might have to the maintenance of this action. It is confronted by a condition and not a theory. This is not the kind of statute in which evidence must be offered as to the operation of a particular industry or an effect of a statute as the basis for the Court's decision. This decision can be rendered just as intelligently upon the record in this case as upon the record in a refund case such as is now before the Court in No. 837, *Steward Machine Co. v. Davis*.

In the light of the above facts, the Government intervened in this proceeding and has, together with the corporate defendant, filed a petition for certiorari in an attempt to secure a decision on the merits of this case. We recognize, however, that there is a question with regard to the jurisdiction of this Court to pass upon the merits in this form of proceeding. Nevertheless, we believe that the Court and should render a decision on the merits.

4. *Legal basis of jurisdiction.*—It may be objected that jurisdiction is lacking in this case for any one of the following three reasons: (1) there is no "case or controversy" within the meaning of Article III of the United States Constitution; (2) there are lacking the elements necessary for equity jurisdiction; and (3) R. S. Sec. 3224 operates to prevent this sort of suit. We believe that under the circumstances of this case none of these objections is tenable.

In answer to the objection that there is no "case or controversy" within the constitutional meaning of that phrase, we submit that, since the Collector is a defendant to the suit, and since both he and the corporate defendant take a position adverse to that of the respondent, and since their adverse positions relate to a matter presently in controversy—to wit: the payment by the corporate defendant of taxes under Title VII—there are present all the elements necessary to constitute a "case or controversy." Cf. *Aetna Life Insurance Co. v. Haworth*, No. 446, March 1, 1937.

In answer to the second objection, that is, that there are lacking the elements necessary to create a case within the equity jurisdiction of a court, we first note the exact nature of this objection. The objection, as *Norman v. Consolidated Gas Co.* (C. C. A. 2d, decided April 12, 1937) holds, is that if the shareholder waits until the corporation makes the tax payment and the corporation shows no disposition to seek a refund, then the shareholder has open to him a suit in equity to compel the corporation to seek from the Commissioner of Internal Revenue a refund in accordance with the provisions of the applicable statutes. In other words, it is said that there is lacking jurisdiction in equity at this moment, because there will be available in the future another adequate equitable remedy created since 1924.^{14a} Although we agree with the Circuit Court of Appeals for the Second Circuit that the presence of this other equitable remedy is adequate and, like the presence of an adequate legal remedy, furnishes an appropriate ground for an equity court to refuse jurisdiction, it is a ground

^{14a} The remedy of bringing suit to compel the corporation to seek a refund did not exist at the time this Court decided *Pollock v. Farmers Loan & Trust Co.*, 157 U. S. 429, and *Brushaber v. Union Pacific R. Co.*, 240 U. S. 1, since then no refund could be had if the corporations' original payment were voluntary.

which, in our opinion, may be waived by all the parties¹⁵; and if waived in a lower court, cannot be raised in this Court.¹⁶

In answer to the third objection, that is, that R. S. Sec. 3224 prohibits a suit of this nature, our position is as follows: We agree that R. S. Sec. 3224 is intended to prevent equitable interference with the collection of Federal taxes by all devices, including the medium of a stockholder's suit in equity against a corporation to enjoin payment. However, we believe that this objection may be waived by an appropriate officer of the United States. See *Pollock v. Farmers Loan & Trust Co.*, 157 U. S. 554; *Hill v. Wallace*, 257 U. S. 615. We believe that such waiver is certainly within the power of the appropriate officers of the Government in a case like the present. Section 3224 was enacted to promote, not to discourage, the orderly administration and collection of Government revenues. Where, in the judgment of the appropriate officers, the litigation of an injunction suit is more important for the protection of the revenues than insistence upon adherence to the ordinary procedure of payment followed by a suit for refund, the officers should be permitted to waive the objections which Section 3224 authorizes them to raise.

ARGUMENT

I

TITLE VIII IS A VALID EXERCISE OF THE POWER TO TAX CONFERRED ON CONGRESS BY ARTICLE I, SECTION 8, CLAUSE 1

Title VIII imposes two taxes. The first is an *excise* upon employers measured by a fixed percentage of wages paid. Section 804. The second is an *income* tax upon employees measured by a fixed percentage of wages received [Section 801], and the duty of collecting this tax is placed upon the employer who is required to deduct it from wages paid [Section 802]. The respondent stockholder assails both taxes as invalid.

Respondent, however, is not entitled to any relief with respect to the employee tax. That tax is not imposed on his corporation, but is merely a withholding at the source, the employer being merely a collecting agent or stakeholder. The withholding provisions themselves are not challenged, nor could they be successfully attacked. *Brushaber v. Union Pac. R. R.*, 240 U. S. 1, 21; *Pierce Oil Corp. v. Hopkins*, 264 U. S. 137; *Bell's Gap R'd Co. v. Pennsylvania*, 134 U. S. 232, 239.^{16a} The complaint is that the employee tax itself is invalid. But the employer, as stakeholder, has no *locus standi* to challenge this tax. *United States v. American Exchange Irving Trust Co.*, 43 F. (2d) 829 (S. D. N. Y.);¹⁷ *United*

¹⁵ As this Court said in *Pusey & Jones Co. v. Hanssen*, 261 U. S. 491, 500:

"* * * The objection that the bill does not make a case properly cognizable in a court of equity does not go to its jurisdiction as a federal court. *Smith v. McKay*, 161 U. S. 355; *Blythe v. Hinckley*, 173 U. S. 501. The objection may, as printed out in *Reynes v. Dumont*, 130 U. S. 354, 395, be taken by the court of its own motion. But, unlike lack of jurisdiction as a federal court, *Mansfield, Coldwater & Lake Michigan Ry Co. v. Swan*, 111 U. S. 379, 382, lack of equity jurisdiction (if not objected to by a defendant) may be ignored by the court, in cases where the subject-matter of the suit is of a class of which a court of equity has jurisdiction. And where the defendant has expressly consented to action by the court or has failed to object seasonably, the objection will be treated as waived. *Brown v. Lake Superior Iron Co.*, 134 U. S. 530, 535, 536; *Southern Pacific R. R. Co. v. United States* (No. 1), 200 U. S. 341, 349."

There can, of course, be no question that in a case like the present, in which a stockholder sues to enjoin a corporation from committing what he regards as a diversion of corporate assets, "the subject matter of the suit is of a class of which a court of equity has jurisdiction." *Smith v. Kansas City Title & Trust Co.*, 255 U. S. 180; *Ashwander v. Tennessee Valley Authority*, 297 U. S. 288.

¹⁶ *Pollock v. Farmers' Loan & Trust Co.*, 157 U. S. 429, at 554:

"The objection of adequate remedy at law was not raised below, nor is it now raised by appellees, if it could be entertained at all at this stage of the proceedings; and, so far as it was within the power of the government to do so, the question of jurisdiction, for the purposes of the case, was explicitly waived on the argument. The relief sought was in respect of voluntary action by the defendant company and not in respect of the assessment and collection themselves. Under these circumstances, we should not be justified in declining to proceed to judgment upon the merits."

^{16a} The withholding provisions herein are even less open to challenge than those approved in the above cases. The employer is completely protected by Section 802 (a), which provides:

"Every employer required so to deduct the tax * * * is hereby indemnified against the claims and demands of any person for the amount of any such payment made by such employer."

¹⁷ In the *American Exchange Irving Trust Co.* case, the Government levied upon a taxpayer's bank deposit. The bank, although admitting the deposit, denied the depositor's tax liability to the Government. The court rejected that defense (p. 831):

"* * * the present suit is against third parties who do not stand in the shoes of the taxpayer, and are therefore not permitted to set up defenses ordinarily available to taxpayers in actions brought against them to recover taxes."

States v. First Capital National Bank of Iowa City (C. C. A. 8th), March 31, 1937. See also *Miami Valley Fruit Co. v. United States*, 45 F. (2d) 303 (C. C. A. 5th), certiorari denied, 283 U. S. 841; *United States v. Erb*, 8 F. Supp. 947 (S. D. N. Y.).

The corporation "can complain only of the infringement of its own constitutional immunity, not that of its employees." *Virginian Ry. Co. v. System Federation No. 40*, No. 324, March 29, 1937. "No employé is complaining of this act in this case." *Jeffrey Mfg. Co. v. Blagg*, 235 U. S. 571, 576. See also *Erie R. R. Co. v. Williams*, 233 U. S. 685, 697; *Rail Coal Co. v. Ohio Industrial Comm.*, 236 U. S. 338, 349; *Hawkins v. Bleakly*, 243 U. S. 210, 214. Accordingly, respondent stockholder, whose rights cannot be any greater than those of his corporation, may not ask for any relief against the tax on employees imposed by Section 801.

But, even if both taxes be examined, they will be found to be well within the ambit of Federal power. Title VIII is a valid exercise of the power "To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States." Constitution, Art. I, Sec. 8, cl. 1. The authority so conferred "is exhaustive and embraces every conceivable power of taxation." *Brushaber v. Union Pac. R. R.*, 240 U. S. 1, 12.

The taxes imposed are true taxes. Both in form and substance they have all the indicia of and operate as a revenue measure. The statute originated in the House of Representatives,¹⁸ and hearings were held by the House Committee on Ways and Means and the Senate Committee on Finance. The Bureau of Internal Revenue, under the direction of the Secretary of the Treasury, is charged with the duty of collection, and administrative provisions generally found in revenue measures relating to interest, penalties, and the like are also present here. Section 807.

The employee tax [Section 801] is an income tax with respect to services rendered, measured by wages received. Such a tax on income has always been considered within the power Congress and not subject to the requirement of apportionment. *Springer v. United States*, 102 U. S. 586; *Pollock v. Farmers' Loan & Trust Co.*, 157 U. S. 429, 579. Any doubt that may possibly have existed on this question has been removed by the Sixteenth Amendment. Nor is it material that this is a "special income tax," imposed separately from and in addition to the general income tax law. *United States v. Hudson*, No. 97, decided January 11, 1937.

The employer tax [Section 804] is an excise, the incidence of which can be considered either on the receipt of services or on the exercise of the privilege of employing individuals. That such a tax is a true excise is clearly apparent from the discussion of authorities in Appendix C to the Government's brief in *Chas. C. Steward Machine Co. v. Davis*, No. 837, to which we respectfully refer the Court. But whether an excise or not, the levy on employers is in form, at least, undeniably a tax, and it does not matter what it is called in the statute. *Barwise v. Sheppard*, 299 U. S. 33, 36.

Neither of these taxes violates the test of "uniformity" in Article I, Section 8, Clause 1. That requirement is merely one of *geographical* uniformity. It is not, as respondent argues (Br. 40-46), a rule of *intrinsic equality*. The canon of uniformity is satisfied if "the rule of liability shall be the same in all parts of the United States." *Florida v. Mellon*, 273 U. S. 12, 17; *Knowlton v. Moore*, 178 U. S. 41, 83-108; *Poe v. Seaborn*, 282 U. S. 101, 117-118; *Bromley v. McCaughn*, 280 U. S. 124, 138.

The imposition of these taxes is a true exercise of the Federal taxing power. *Their purpose is simply to raise revenue.* Wholly unlike the exactions considered in the *Child Labor Tax Case*, 259 U. S. 20, and *Hill v. Wallace*, 259 U. S. 44, these taxes are not designed to and do not obtain compliance with a scheme of Federal regulation. Since they could not be considered to be part of a regulatory scheme, these taxes are not comparable to the tax invalidated in *United States v. Butler*, 297 U. S. 1. Of the tax there involved, the Court said (p. 59):

The rate is fixed with the purpose of bringing about crop-reduction and price-raising. It is to equal the difference between the "current average farm price" and "fair exchange value." It may be altered to such amount as will prevent accumulation of surplus stocks. If the Secretary finds the policy of the act will not be promoted by the levy of the tax for a given commodity, he may exempt it.

¹⁸ The bill which was finally enacted was introduced in the House as H. R. 7260 on April 4, 1935, 74th Cong., 1st Sess.

Thus, entirely apart from the fact that the proceeds were deemed to regulate agricultural production, the tax itself was regarded as a device calculated to control production and prices of agricultural commodities.

The taxes imposed by Title VIII can not have, nor were they intended to have, any regulatory effect. They simply raise revenue, which is paid unrestricted into the Treasury as internal revenue collections. Section 807. Congress anticipated that large sums would be collected.¹⁹ And although the taxes for the first month were not due until March 1, 1937,²⁰ collections through March 31, 1937, have reached \$57,928,950.57.

Nor is the quality of Title VIII as a taxing measure destroyed by the fact that Congress anticipated making large future expenditures out of the general treasury for the purposes enumerated in Title II, and that the taxes collected would operate to relieve the drain to be occasioned by such expenditures.

The constitutional validity of a tax is not affected by the fact that it was imposed because anticipated expenditures made it necessary to raise funds. It has long been recognized that "Taxation may run *pari passu* with expenditure". *Patton v. Brady*, 184 U. S. 608, 620. Cf. *Knights v. Jackson*, 260 U. S. 12, 15; *Carley and Hamilton v. Snook*, 281 U. S. 66. Thus it is inconceivable that the Revenue Act of 1936 could fail as an exercise of the taxing power even to the extent that it raises more revenue than its predecessors, by reason of the fact that it was enacted to provide funds for the soldiers' bonus under the Adjusted Compensation Payment Act of 1936, c. 32, 49 Stat. 1099, and for expenditures under the Soil Conservation and Domestic Allotment Act, c. 104, 49 Stat. 1148. See H. Rep. No. 2475, 74th Cong., 2d Sess., pp. 1-3; S. Rep. No. 2156, 74th Cong., 2d Sess., pp. 1-3. Cf. *Knights v. Jackson*, *ubi supra*.

Indeed, not only is it generally recognized that there may be a proper relationship between anticipated expenditures and taxation, but some urge that they should always be considered together. Cf. Report of the Select Committee on the Budget of the House of Representatives, H. Rep. No. 14, 67th Cong., 1st Sess. And it has been the uniform practice in both the House and the Senate to consider the financial needs of the Government in the preparation of revenue bills.²¹ The Budget and Accounting Act of June 20, 1921 (c. 18, 42 Stat. 20, 21), provides that if the estimated receipts are less than the estimated expenditures for the ensuing fiscal year, the President in the Budget shall make recommendations to Congress for new taxes, loans, or other appropriate action to meet the estimated deficiency.

The fact that the employee taxpayer will later be the recipient of benefits under Title II does not deprive either the employer tax or the employee tax of its quality as a true tax. "It would be difficult indeed to arrange public affairs in such fashion that no economic benefits would accrue to taxpayers as a result of the expenditures of tax collections." Haig, 14 *Encyclopedia of Social Sciences* 531, 536.²² See also *id.*, p. 532.

¹⁹ The combined yield of the two taxes was, at the time of the passage of the Act, expected to be \$278,800,000 for the fiscal year 1937 (the taxes being operative during only one-half of that year, since they were to go into effect for the first time on Jan. 1, 1937); \$560,200,000 for the fiscal year 1938; \$714,600,000 for the fiscal year 1940; \$1,028,800,000 for the fiscal year 1943; \$1,359,400,000 for the fiscal year 1946; and \$1,706,300,000 for the fiscal year 1949. See S. Rep. No. 628, 74th Cong., 1st Sess., p. 26; H. Rep. No. 615, 74th Cong., 1st Sess., p. 15. Since the passage of the Act, somewhat higher estimates have been made. Thus in the Annual Report of the Secretary of the Treasury for the fiscal year 1936, p. 44, it is estimated that for the fiscal year 1938 the taxes imposed by Title VIII will yield \$622,000,000.

²⁰ The taxes are operative only with respect to wages paid after December 31, 1936. Sections 801, 804. Payments are due monthly with returns. Regulations 91, Articles 410, 401. And pursuant to Regulations 91, Article 409, returns must be filed on or before the last day of the first month following the period for which they are made. Thus, returns for January 1937 would be due on Feb. 28, 1937; but since Feb. 28, 1937, fell on Sunday, the returns and payments were not due, in accordance with Article 409, until March 1, 1937.

²¹ See House Hearings on H. R. 12395, 74th Cong., 2d Sess., p. 1, Revenue Act of 1936; Senate Hearings, p. 1, Revenue Act of 1936; House Hearings on H. R. 7835, 73d Cong., 2d Sess., p. 1, Revenue Act of 1934; House Hearings on H. R. 10236, 72d Cong., 1st Sess., p. 1, Revenue Act of 1932; Senate Hearings, p. 1, Revenue Act of 1932; House Hearings on H. R. 1, 70th Cong., 1st Sess., p. 1, Revenue Act of 1928; Senate Hearings, p. 269, Revenue Act of 1928; House Hearings on H. R. 1, 69th Cong., 1st Sess., p. 1, Revenue Act of 1926; Senate Hearings, p. 1, Revenue Act of 1926; House Hearings on H. R. 6715, 68th Cong., 1st Sess., p. 317, Revenue Act of 1924; Senate Hearings, pp. 1, 39, Revenue Act of 1924; House Hearings, Executive Session, on H. R. 8245, 67th Cong., 1st Sess., p. 384, Revenue Act of 1921; Senate Hearings, letter from the Secretary of the Treasury, p. 7, Revenue Act of 1921; House Hearings on H. R. 12863, 65th Cong., 3d Sess., pp. 9, 13, Revenue Act of 1918.

²² Haig also calls attention to "the enormous development of governmental functions which has come about, resulting in traceable benefits and forming the foundation for the modern demand that specially benefited individuals and classes should assume some degree of responsibility for the costs involved." *Id.*, p. 539.

Accordingly, Title VIII is a valid exercise of the taxing power; the taxes comply with the various applicable constitutional limitations; they are true taxes, having no regulatory purpose or effect; they were designed to and actually do raise revenue in substantial amounts which is paid unrestricted into the Treasury of the United States.

II

THE APPROPRIATIONS AUTHORIZED BY TITLE II MAY NOT BE CHALLENGED BY A TAXPAYER UNDER TITLE VIII

The Circuit Court of Appeals held that a tax for the old age benefits provided for in Title II "cannot be said to be imposed for the general welfare of the United States and the taxes under Title VIII would fail for this reason" (R. 28). It is our position that a taxpayer under Title VIII has no standing to challenge the constitutionality of Title II, and that the court below erred in undertaking to pass upon it. The taxes are paid into the Treasury completely unrestricted, and are subject to call for the general support of the Government. We do not deny that the taxes imposed by Title VIII were intended roughly to relieve the drain on the Treasury to be occasioned in the future by Title II. But we do say that such a rough budgetary correspondence—a correspondence that may and probably will fail to achieve even approximate mathematical equivalence (see pp. 9-14, *supra*)—is not sufficient to entitle a taxpayer to challenge these proposed expenditures.

A taxpayer of the United States may not attack the expenditure of funds from the Federal Treasury. *Prothingham v. Mellon*, 262 U. S. 447; *Wheless v. Mellon*, 10 F. (2d) 893 (App. D. C.), certiorari denied, 269 U. S. 560. While that rule has been relaxed where the avails of the tax are earmarked for a specific purpose (*United States v. Butler*, 297 U. S. 1), no such circumstances are present here to justify a departure from the general rule.

The operation of the taxes under Title VIII is in no way conditioned upon the expenditures provided for in Title II. The rates of tax are fixed, and the proceeds are commingled in the general Treasury. And no money which has been covered into the Treasury can be paid out except pursuant to an appropriation (Const., Art. I, Sec. 9, cl. 7). But Title II does not contain any appropriation, it merely *authorizes* appropriations. Future acts of Congress are necessary to make the appropriations, and when they are made, they will derive their vitality from such acts of Congress rather than from Title II. Thus, the first appropriation contemplated by Title II was made by the Act of June 22, 1936, c. 689, 49 Stat. 1597, 1635. In making subsequent appropriations, future Congresses may or may not elect to follow the provisions of Title II. See Witte, *Old Age Security in the Social Security Act*, 45 Journal of Political Economy 1, 15, 17, 19, 20. A future Congress may not even make any appropriation in a given year. Yet the taxes imposed by Title VIII continue.

But even if future Congresses should stay within the provisions of Title II, the expenditures actually made for the specified benefits would have no mathematical equivalence to the taxes collected. Thus, it is expected that \$253,000,000 will be realized under Title VIII for the fiscal year 1937. See Hearing before Subcommittee of the House Committee on Appropriations, 75th Cong., 1st Sess., Treasury Department Appropriation Bill for 1938, p. 69. Yet benefit payments are not expected to exceed \$1,900,000. See H. Rep. No. 615, 74th Cong., 1st Sess., p. 6; S. Rep. No. 628, 74th Cong., 1st Sess., p. 9. It is only between 1965 and 1970, according to present calculations, that benefit payments will be even roughly equivalent to the taxes collected, and the benefit payments thereafter are expected to exceed the tax receipts. See H. Rep. No. 615, and S. Rep. No. 628, *ubi supra*.

Moreover, even if there be added to the benefit payments in any given year the current addition to the reserve, there would still be a wide discrepancy between that amount and the tax receipts under Title VIII. The benefit payments and addition to the reserve in any specified year are predicated upon many factors, some of which are entirely independent of contemporary tax receipts. The taxes would merely be a fixed percentage of wages paid during that year in the employments subject to the Act, while the appropriation would be dependent upon two major variables. The amount needed for current benefit payments would depend upon the number of eligible recipients then alive as well as upon the amount and distribution of their past wages. The second major variable, the contribution to the reserve, is governed by Section 201, which requires that the reserve be maintained "in accordance with accepted actuarial principles,

and based upon such tables of mortality as the Secretary of the Treasury shall from time to time adopt * * *." Thus there is room for variation here not only in possible revision of the mortality tables, but also in the fact that there are at least several very different methods of maintaining this reserve, all "in accordance with accepted actuarial principles."²³ The question is merely one of how the burden of anticipated expenditures should be distributed among succeeding annual Federal budget in accordance with prudent business management. The "straight line" method and the method employing the present value of accrued liabilities are but two examples of widely divergent systems that could be resorted to. Yet the annual addition to the reserve under the first of these methods would be quite different from that called for under the second.²⁴

Thus, it is clear that not only are the Title VIII taxes covered unrestricted into the general treasury but also that there is no equivalence between the amount of those taxes and the expenditures authorized under Title II. It is not suggested, however, that Congress did not have Title II in mind when it imposed the taxes in Title VIII. Title II contemplated large future expenditures, and it is one of the characteristics of prudent government to provide new taxes roughly to offset the drain on the treasury to be occasioned by new expenditures. Title VIII does no more than that. It has an independent vigor, and is not conditioned in any way upon Title II for its operation.²⁵ The proceeds pass unrestricted into the general treasury and are not equated in any way to the authorized expenditures. The taxes were intended at most to relieve in a rough manner the anticipated drain upon the treasury. This budgetary correspondence exists nearly every time new taxes are imposed. See pp. 37-39, *supra*. Yet it has never been suggested that the rule of *Frothingham v. Mellon*, *supra*, should be relaxed merely because the taxes tend to balance the budget. To permit the rule to be so whittled away would go far to sanction a challenge to the Soldiers' Bonus by a taxpayer under the Revenue Act of 1936 because more taxes are demanded from him than under prior revenue laws. See p. 38, *supra*.

Accordingly, it is respectfully submitted that the fundamental rule of *Frothingham v. Mellon* should not be devitalized as was done in the court below, and that the propriety of the expenditures under Title II should not be considered by this Court.

III

THE EXPENDITURES AUTHORIZED BY TITLE II ARE WITHIN THE AUTHORITY OF CONGRESS UNDER ARTICLE I, SECTION 8, CLAUSE 1

A. THE SCOPE AND CONTENT OF THE GENERAL WELFARE CLAUSE

By Article I, Section 8, clause 1 of the Constitution Congress is empowered—to lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defense and general Welfare of the United States; * * *.

This clause confers an express power to tax in order to provide for the general welfare. It also confers the implied, correlative power to spend the avails of the taxes for the same purpose. Of course, if Congress may tax for this purpose, it must have the power to appropriate the money which is raised to the same object. *United States v. Butler*, 297 U. S. 1, 65-67; *United States v. Realty Co.*, 163 U. S. 427, 440; *Legal Tender Cases*, 110 U. S. 421, 440.

²³ See footnote 9, pp. 11-12, *supra*.

²⁴ Under a straight line method, involving an appropriation substantially equal every year in perpetuity for each employee, the annual appropriation would be at the outset in the neighborhood of \$1,800,000,000. See footnote 9, pp. 11-12, *supra*. On the other hand, a very different result would be reached if there should be added to the reserve the then value of liabilities accrued during the year. Since the monthly benefits under Title II are computed at the rate of $\frac{1}{2}$ to 1 percent upon the first \$3,000 of wages earned after December 31, 1936, at the rate of $\frac{1}{2}$ of 1 percent on the next \$42,000, and $\frac{1}{24}$ of 1 percent on the rest, it is clear that there will be a considerably more rapid rate of accrual in the earlier years of operation of the statute. Thus, if this method were followed, it is expected that \$5,000,000,000 or \$6,000,000,000 a year would have to be added to the reserve during the course of the next few years, and that thereafter there would be a sharp decline in the amount called for.

²⁵ Contrast in this respect the processing taxes invalidated in *United States v. Butler*, 297 U. S. 1, 59, which were conditioned not only in operation, but also in amount by the spending program. Compare also *Railroad Retirement Board v. Alton R. Co.*, 295 U. S. 330, 340-344, where the exactions, although not claimed to be taxes, were nevertheless paid into a special fund to meet the expenditures therefrom.

This power of appropriation is not limited by or to the other enumerated powers. Rather, its limits are those implicit in the term "general welfare." It includes, in other words, any expenditure that will, by any "reasonable possibility", conduce to the general welfare of the United States. *United States v. Butler*, *supra*; Story, *Commentaries on the Constitution of the United States* (5th ed.), Vol. I, Chapter XIV; Hamilton, *Report on Manufactures*, in *Works* (Ham. ed.), Vol. III, pp. 192, 250. Though it is true that eminent men, upon whom respondent relies (Br. 57-58),²⁶ have at various times in our history asserted a contrary view, it must now be regarded as settled, not only by the *Butler* case, but also by the long continued practice of Congress in expenditures of public funds,²⁷ that Story and Hamilton were correct.

The determination whether a particular expenditure is for the general welfare is one of governmental policy—of political economy—in the largest sense of the term. In the very nature of this power, that question must be left to the determination of Congress. *United States v. Teller*, 107 U. S. 64, 68; *Friskie v. United States*, 157 U. S. 160, 166; *United States v. Cook*, 257 U. S. 523, 527; President Monroe in Richardson, *Messages and Papers of the Presidents*, Vol. II, p. 166. If it were otherwise the Court would repeatedly be called upon to decide matters of policy and expediency—matters which it has often stated that it has no power to review. *Wilson v. New*, 243 U. S. 332; *German Ins. Co. v. Lewis*, 233 U. S. 389; *McCray v. United States*, 195 U. S. 27; *Champion v. Ames*, 188 U. S. 321; *Williams v. Heard*, 140 U. S. 529, 537; *Nebbia v. New York*, 291 U. S. 502, 537. In any event, this Court has stated that only when "by no reasonable possibility" can the challenged expenditure be said to fall within the "wide range of discretion" possessed by Congress will the statute be adjudged to be invalid. *United States v. Butler*, 297 U. S. 1, 65-67; *United States v. Realty Co.*, 163 U. S. 427, 444; *Head Money Cases*, 112 U. S. 580, 595.

In the present case there has been a long and intensive investigation of the problem to which this statute is a response. The President's Committee on Economic Security, over a period of six months, made a thorough preliminary investigation and report.²⁸ That Committee was aided not only by a Technical Board, composed of government officers, and by a research staff of government employees, but also by an Advisory Council, consisting of leading citizens in various fields, and seven advisory groups. Following this report, extensive hearings were held before the House Committee on Ways and Means and before the Senate Committee on Finance. The hearings, before the House Committee, extending from January 21 to February 12, 1935, resulted in 1,141 pages of testimony.²⁹ The Senate Committee hearing, extending from January 22 to February 20, 1935, produced 1,354 pages of testimony.³⁰

In contrast to this, the record in the present case contains no evidence to overcome that presented to the Committees of Congress. Under these circumstances, we submit that the legislative determination by Congress that the expenditures authorized by the present Act were for the general welfare has not been overcome. In the analogous situation in cases arising under the due process clause of the Fourteenth Amendment, the presumption of constitutionality has been held to prevail in the absence of some factual foundation of record for overthrowing the statute. *O'Gorman & Young v. Hartford Insurance Co.*, 282 U. S. 251, 258; *Metropolitan Casualty Ins. Co. v. Brownell*, 294 U. S. 580; *West Coast Hotel Co. v. Parrish*, No. 293, March 29, 1937. See also *Borden's Farm Products Co. v. Baldwin*, 293 U. S. 194, 209 (equal protection clause); *Alaska Packers Association v. Industrial Accident Commission*, 294 U. S. 532, 547 (full faith and credit clause).

In any event, however, we submit (1) that the Old Age Benefit payments contemplated by Title II will, at least by some reasonable possibility, conduce

²⁶ Veto messages of President Buchanan on bill to endow colleges in each State (February 24, 1859), Richardson, *Messages and Papers of the Presidents*, Vol. V, p. 547; of President Cleveland on an act to aid Texas drought sufferers (February 16, 1887), *id.*, Vol. VIII, p. 557. The veto of President Jackson in *id.*, Vol. II, pp. 483, 492, 639 is not, upon a fair reading, contrary to our view.

²⁷ See brief for the United States in *United States v. Butler*, No. 401, October Term, 1935 (297 U. S. 1), at pp. 153-170; brief for the respondent Administrator in No. 32, *Duke Power Co. v. Greenwood County*, pp. 164-165; brief for respondent Collector in No. 837, *Steward Machine Co. v. Davis*, pp. 131-136. The legal effect of a long-continued practice is recognized in *United States v. Curtiss-Wright Export Corp.*, 299 U. S. 304, 328-329.

²⁸ Report to the President of the Committee on Economic Security (1935).

²⁹ Hearings before the House Committee on Ways and Means on H. R. 4120, 74th Cong., 1st Session.

³⁰ Hearings before the Senate Committee on Finance on S. 1130, 74th Cong., 1st Session.

to the general welfare of the United States, and (2) that the form of the benefit payments for that purpose is wholly proper.

B. THE OLD AGE BENEFIT PAYMENTS CONTEMPLATED BY TITLE II WILL PROMOTE THE GENERAL WELFARE OF THE UNITED STATES

1. The problem of old-age dependency*

There are today nearly 8,000,000 persons aged 65 or over in the United States, constituting approximately 6 percent of the total population.³¹ In 1870 that age group contained 1,153,649 persons—3 percent of the population.³² In other words, in less than 70 years, while the population has slightly more than tripled, the aged have increased over seven-fold, and their ratio to the total population is approximately twice as great.³³

Even more significant is the prediction of population experts as to the increase in the number of aged persons in the future. Estimates vary, depending on estimates of future birth rates, mortality rates, and immigration, but a median estimate³⁴ indicates that by 1980, although the total population will have increased to only 158,000,000, those aged 65 or more will have increased to 22,000,000—14 percent of the total population.³⁵ In other words, in 1980 there will be nearly *three times as many aged persons as there were in 1930*. Moreover, the increase will not be confined to those over 65; those in the age groups of 40-65 also show large absolute and relative increases³⁶—a fact of great importance in view of the declining span of working life described below.³⁷

The fact that the United States is at present faced with a much greater number of aged persons, proportionately as well as absolutely, than existed in 1870, and that it must expect an increasingly greater number until at least 1980, might well in itself justify action now and preparation for the future. But we need not rely exclusively on the factor of increasing numbers, as there are other considerations which have combined to increase the inability of aged persons to care for themselves—considerations which will continue to be present and which will far outweigh in importance even the rapid numerical increases.

The United States, during the past decade, has begun to experience the consequences of urbanization and industrialization.³⁸ During the early history of the country, families for the most part lived on farms or in small villages. Age meant continuation of occupation at a slower pace. Old men could still do chores around the farm; old women helped with various household activities. Cash was relatively unimportant, for people produced most of the goods which they consumed.

The urban industrial worker lives under entirely different conditions.³⁹ Cash with which to buy food, lodging, and other necessities is an essential requirement of urban life. However, the urban worker, reaching old age—and even middle age—all too frequently finds himself without cash reserves or property which may be converted into cash. This condition is explained by reference to two features of our industrial life: (a) the difficulty experienced by urban

*Analytical and research assistance has been furnished by Robert P. Bingham, Peter Seitz, Elliott H. Moyer, and Morton Stavisky.

³¹ Appendix, p. 64, Table 2. The Bureau of the Census estimates that on January 1, 1938, the number of persons aged 65 or over will be 7,988,000. Hearings before the Subcommittee of the House Committee on Appropriations on Independent Offices Appropriation Bill, 75th Cong., 1st Sess., p. 499.

³² Appendix, p. 64, Table 2.

³³ This tendency of the population to include a relatively larger number of persons aged 65 or over is shown also for the middle aged. Since 1850 the age group 30-44 has increased from 16.6 percent of the population to 21.5 percent, and the age group 45-64 has increased from 9.9 percent to 17.5 percent. Appendix, p. 65, Table 3.

³⁴ Whelpton, P. K., *An Empirical Method of Calculating Future Population*, Jour. American Statistical Assn., Vol. 31, No. 195 (Sept. 1936), pp. 457, 473.

³⁵ The Committee on Economic Security estimated that in 1980 there would be 17,001,000 persons, or 11.3 percent of the population who would be 65 or over. Report of the Committee on Economic Security, p. 68. See also H. Rep. No. 615, 74th Cong., 1st Sess., p. 4. Louis I. Dublin, Statistician of the Metropolitan Life Insurance Company, estimates that persons 65 or over in 1980 will constitute 16.9 percent of all persons. Dublin, L. I., and Lotka, A. J., *Length of Life* (1936), p. 265.

³⁶ See Appendix, p. 65, Table 4.

³⁷ See pp. 56-58, *infra*.

³⁸ In 1790, 3 percent of the population lived in cities of 8,000 or more inhabitants. In 1930 the number had increased to almost 50 percent. Thomas, Warren S., and Whelpton, P. K., *Population Trends in the United States* (1933), pp. 18-19. See also Goodrich, Carter, and others, *Migration and Economic Opportunity* (1936), p. 678; *Economic Insecurity in Old Age* (Social Security Board, 1937), pp. 21-22.

³⁹ For a discussion of the inability of the industrial worker to bridge the gaps in his employment see our brief in *Steward Machine Co. v. Davis*, No. 837 at pp. 13-20. See also, generally, *Economic Insecurity in Old Age*, *supra*.

workers in laying aside a sufficient reserve out of their wages for old age while maintaining themselves and their families at a level compatible with American minimum standards of health and decency and (b) the periodic wiping out of their accumulated savings by various emergencies occurring during their working years, and the ravages of economic depressions.⁴⁰

⁴⁰ Some appreciation of the extremity of the worker's position may be gained from the following brief digest of the contributing factors. The average per capita full-time income of employees in mining, quarrying, manufacturing, construction and transportation in the prosperous year 1929 was but \$1,404 and in the depression year 1933, \$929. Martin, Robert F., *National Income and Its Elements*, National Industrial Conference Board, Inc. (1936), page 29. 53 percent of non-farm families in 1929 had incomes of less than \$2,000, and 75 percent had incomes of less than \$3,000. Brookings Institution, *America's Capacity to Consume* (1934), p. 261. In 1929 it was estimated that an income of \$2,000 was essential to maintain a family of five in Chicago to meet a minimum budget compatible with American standards of decency and health. The *Chicago Standard Budget for Dependent Families*, Chicago Council of Social Agencies (1929), p. 49.

Adjusted to the cost of living index of the Bureau of Labor Statistics, this amount in 1935 was \$1,602. The cost of living studies conducted in numerous urban centers by the Bureau of Labor Statistics indicates that one-third to one-half of low-income families not only fail to save in a given year but suffer a decrease in assets or an increase in liabilities. The average New York and Detroit family in the period 1934-1936 was forced into debt annually to the extent of \$96 and \$13, respectively. In Boston, the average family was able to save only \$2 a year. *Economic Insecurity in Old Age*, pp. 56, 86.

Thus it is evident that the urban wage earner, who is usually the sole or principal source of family income, after making necessary expenditures for the family budget, will, in all probability, have insufficient reserves to meet even immediate and impending emergencies.

The major hazard facing the wage earner is the loss of income resulting from unemployment. The average annual loss during the last 40 years in all non-agricultural industry has been about 8 percent. Douglas, Paul H., and Director, Aaron, *The Problem of Unemployment* (1931), p. 32. This means in absolute figures an average annual loss in wages due to unemployment of approximately 4.2 billion dollars and average annual unemployment of about 2,780,000 persons. *Economic Insecurity in Old Age*, p. 95. In the period from 1929 to 1936, according to conservative and authoritative estimates, the number of unemployed reached as high an average as 10,000,000, and at one point of time during this period the total number of unemployed approximated 16,000,000 persons. See brief in *Steward Machine Co. v. Davis*, No. 837, p. 11, and references therein set forth. In addition, in both normal and depression times, part time or under employment and absenteeism due to disability, family misfortune, temporary layoffs, bad weather, etc., cut deeply into and substantially reduced the income of workers. It has been estimated that these alone count for an 8 percent loss in wages. Douglas, Paul H., *Real Wages in the United States 1890-1926* (1930), p. 478. See also *Economic Insecurity in Old Age*, p. 99.

Even when industrial workers are enabled to accumulate savings out of their incomes for their old age, they are frequently drained away by expenditures for recurring emergencies which they must meet in the course of their industrial lives, such as the following:

(a) **Sickness and Accidents:** The average annual cost of medical care per family in families with annual incomes from \$1,200 to \$2,500 is \$86. In families with incomes of less than \$1,200 the cost is \$49 per family. Falk, I. S., *Security Against Sickness*, p. 15. The aggregate annual loss of earnings and cost of medical care due to illness has been found to be 2.4 billion dollars in families with incomes of less than \$2,500. *Ibid.*, p. 13.

(b) **Death:** The average cost of funeral and burial in 1927 was \$363. Gebhart, John C., *Funeral Costs, Miscellaneous Contributions on the Costs of Medical Care*, No. 3 (1930), p. 5; *Economic Insecurity in Old Age*, p. 107. To meet this cost low income families carry industrial or "burial" insurance. It has been estimated that 5 to 6 percent or more of family income in the lower income brackets is spent for premiums for such insurance in normal times; from 10 to 12 percent is spent for such insurance by such families during periods of depression. Taylor, Maurice, *Social Cost of Industrial Insurance*, p. 251; *Economic Insecurity in Old Age*, pp. 65, 66. Despite this large expenditure the average amount of such insurance carried is only \$309. Thus average funeral expenses actually exceed the amount of insurance available by 17.7 percent. Gebhart, John C., *Funeral Costs 1930*, pp. 4, 5; Also see Gebhart, John C., *The Reasons for Present Day Funeral Costs*, 1928, and *Economic Insecurity in Old Age*, p. 107.

(c) **Savings Account Withdrawals and Bank Failures:** The principal type of savings of workers in low income groups consists of deposits in savings accounts. During the last depression, in the four years ending June 30, 1934, 13,000,000 depositors closed their savings accounts and over 17 billion dollars were withdrawn during that period. In addition to these voluntary withdrawals, between 1931 and 1935, 13,648 national, state, and nonmember banks with \$7,816,830,000 deposits were suspended. How many wage earners lost their lifetime savings in such banks is not known, but it is reasonable to suppose that they bore their share of such losses. *Economic Insecurity in Old Age*, pp. 141, 142.

(d) **Insurance losses:** Industrial or "burial insurance" which has a very low cash surrender value is the only type of insurance generally available for low-income urban workers. However, during depression years, due to unemployment, workers cannot continue their weekly or monthly payments on such insurance. In the four years from 1932-5, inclusive, nearly 20 million industrial policies were surrendered. The face value of such policies was over 4 billions of dollars in the aggregate, and even greater loss was sustained in the lapsing of 58 million policies with a face value of 13 billions of dollars. It is estimated that policyholders lost on the average of 40 million dollars a year for each of the five years from 1928 through 1932 on lapsed policies. *Economic Insecurity in Old Age*, pp. 119-122.

(e) **Loss of homes and investments:** Those workers who were able to save sufficiently to own their own homes suffered severe losses in the depression. About one million families lost their homes through foreclosures from 1930-1936, inclusive. It is estimated that over 2 billion dollars were lost in home equities during that period. *Economic Insecurity in Old Age*, p. 128. In addition, workers who were successful in saving suffered losses in the deflation of the values of securities and other types of investment. *Economic Insecurity in Old Age*, pp. 132-138.

Low as is the average wage paid to *all* persons in industry, the average wage paid to industrial workers after early middle age is even lower. Inability of the middle aged to adjust themselves to changing labor demands or new jobs, competition of younger workers in an overabundant labor market, and arbitrary dismissal policies of many employers⁴¹ are increasing the premature superannuation and permanent unemployment in middle life.⁴² Particularly in times when retrenchment is necessary, the older employee will suffer a loss of wages in all except the most highly skilled occupations.⁴³ Moreover, contrary to the rule in professional and skilled occupations, the peak of an average industrial worker's earning power is reached in early middle life, and even those old employees who succeed in retaining their positions will find their wages rapidly becoming less.⁴⁴

The hazards of the *employed* older worker, however, are negligible compared to those encountered by the unemployed man or woman over 40 who seeks reemployment. The inability of older men to meet production standards, the higher group insurance rates when older employees are hired, and the burden of taking care of employees already grown old with the company have combined to cause most industries to adopt employment policies that militate strongly against the middle-aged unemployed.⁴⁵ Sample studies reveal that such policies are not a consequence of the depression, for in 1929, in New York, 28 percent of the manufacturing plants had a hiring age limit, commonly 45.⁴⁶ In 1930, out of 224 American factories, 71, or almost one-third, had fixed maximum hiring age limits; in 4 plants the limit was under 40, in 45 it was under 46. In the other 153 plants there were no fixed limits, but in practice few were hired who were over 50 years of age.⁴⁷ Seasonal, and *a fortiori* cyclical, depressions accentuate the problem. During the recent depression, for example, when over one-third of all gainfully employable workers were unemployed,⁴⁸ workers over 40 were laid off to an even greater extent than young workers. And those over 40 will in most cases never again be able to find employment.⁴⁹

One would be justified in concluding, without more, that a large proportion of all workers, upon reaching the age of 65, would be dependent upon others for support. Such studies as have been directed to this question completely bear out the conclusion.⁵⁰

Three extensive state surveys, all of which antedate the depression, may be cited. In Pennsylvania, in 1919, a study of 16,281 persons and interviews with

⁴¹ *Middle-Aged and Older Workers* (Calif. Dept. of Industrial Relations), Special Bulletin No. 1, p. 25, No. 2, pp. 34, 98; Barkin, Solomon, *The Older Worker in Industry* (N. Y. Legis. Doc. No. 66, 1933), p. 159.

⁴² See, e. g., *The Older Worker in Maryland* (Commissioner of Labor and Statistics, 1930), p. 39, which shows that the ages of highest frequency in manufacturing establishments in Baltimore, and in other parts of the State, were 18 and 22, respectively, and that the median ages were 29 and 30, respectively. See also Appendix, pp. 77-78, Table 13.

⁴³ Barkin, Solomon, *supra*, p. 159.

⁴⁴ Appendix, p. 66, Table 5.

⁴⁵ *Hiring and Separation Methods in American Factories*, Monthly Labor Review, Vol. 35, No. 5, pp. 1005-1017, November 1932, p. 1009. Boyd, Charles J., *Some of the Problems of the Middle-Aged Man—His Chances of Securing Employment* (U. S. Dept. of Labor, Bureau of Labor Statistics), Bulletin No. 478, 1928, pp. 19-21; *Hearings Before the House Committee on Ways and Means*, *supra*, pp. 199, 220, 1005; *Hearings Before the Senate Committee on Finance*, *supra*, pp. 177-178, 760-761.

⁴⁶ *The Older Worker in Industry* (Annual Meeting of Nat. Ass'n. of Manufacturers, 1929), p. 12.

⁴⁷ *Hiring and Separation Methods in American Industry*, Monthly Labor Review, Vol. 35, No. 5, pp. 1005-1017, Nov. 1932, p. 1009.

⁴⁸ In 1930 there were 48.9 million gainfully employable persons in the United States. *Fifteenth Census, 1930*, Vol. V, p. 114. Estimates of the maximum number of persons unemployed during the depression range from 14 to 17 millions. See Appendix to brief for the respondent Collector in No. 837, *Steward Machine Co. v. Davis*, pp. 77-79, Table 20.

⁴⁹ "Industry is not keen about hiring older applicants. In fact, it can be said, on the basis of the experience of some 2,300 manufacturing establishments in the latter half of 1930, that the older persons will hardly succeed in obtaining employment. The age when hiring handicap begins for males is 35 years and females 30 years. The chances of an unemployed person of 40 years and over obtaining employment are only about 19 percent as good as those of a person under 20 years of age. In comparison with the average person, the older male suffers a 59 percent handicap and the older female a 65 percent hiring handicap. These barriers grow more formidable with advancing age so that in the case of males, the handicap for those 50-54 years is 66 percent and for those 60-64, 83 percent, in comparison with the average person's ability to obtain employment. In the above survey, it was found that only 15 percent of the newly hired were 40 years or over, and only 8.5 percent 45 years and over." Barkin, Solomon, *The Middle-Aged Worker—His Chances in Industry*, in *Social Security in the United States* (1933), p. 20-28.

⁵⁰ The Senate Committee estimated that over half of the people in the United States over 65 years of age are dependent upon others for support. Sen. Rep. No. 628, *supra*, p. 4. A similar estimate was made by the Committee on Economic Security. H. Doc. No. 81, 74th Cong., 1st Sess., p. 20.

more than 3,500 persons 65 years of age and over showed two-fifths with no income but wages and one-fourth supported by children; 1.5 percent had savings and 11.8 percent had property.⁶¹ In Massachusetts, in 1924, two-thirds of those above 65 had, alone or with a spouse, less than \$5,000 of property, and one-fourth had none. Two-thirds of those with less than \$5,000 were dependent in whole or in part on others for support. Nothing was ascertained of the income of those with property of \$5,000 or more.⁶² In New York, in 1930, total dependency, including aid from organized charity, restraint in institutions and support by friends and relatives amounted to 58 percent for those 65 and over and 62 percent for those 70 and over.⁶³ As we have said, these are all predepression studies; many of those with property in Pennsylvania and Massachusetts no longer have it; many who relied upon wages now rely upon others for their support.

The experience of the national government in making expenditures under Title I of the Social Security Act furnishes more recent information. For instance, in February 1937, 38.8 percent of all persons over 65 in Colorado received public assistance. In Oklahoma the percentage was 44.1, and in Texas 37.5. In 10 States out of 41 with plans approved by the Social Security Board more than 25 percent of those over 65 could meet the residence requirements and qualify under a means test and were actually receiving public aid.⁶⁴

A recent study made by the Social Security Board (set out in detail in tabular form in the Appendix, pp. 75-77, Table 12), summarizes the available material as follows:

Bringing together the dependency rates indicated by State surveys, census data, and recent estimates on unemployment among the aged and the latest available data on old-age assistance under the Social Security Act, we find the extent of dependency among persons 65 and over at the end of 1936 to be as follows: One-fifth of the aged in the United States were receiving old-age assistance, emergency relief, institutional care, employment under the Works Program, or some other form of aid from public or private funds, one-half to two-fifths were dependent on friends and relatives, one-eighth had some income from earnings, and possibly one-sixth had some savings or property. *Almost three out of four persons 65 or over were dependent wholly or partially on others for support.*^{64a} [Italics supplied.]

The above quotation shows what an alarming proportion of those over 65 are dependent. And those who are dependent are increasingly unable to find support from private resources. Moreover, although reliance upon relatives for support of the aged is still widespread,⁶⁵ this reliance itself has disastrous consequences. The relatives on whom the aged depend themselves receive such low incomes⁶⁶ that in meeting the cash needs of the aged they often sacrifice the immediate welfare of the younger members of their families by forcing them to begin work before acquiring an education, and, by using up the resources of both old and young, intensify the problem for the next two generations.⁶⁷ The seriousness of the drain of older persons upon their younger relatives is apparent when we recognize that only in rare cases do children rise above the financial level which their parents have attained.⁶⁸ It is because of this fact that public welfare laws which require legally responsible relatives to support needy parents and grandparents are so generally ineffective in their operation, even when the aged have children to whom to turn.⁶⁹ For the large

⁶¹ *Report of Pennsylvania Commission on Old-Age Pensions* (1919), p. 108.

⁶² *Report on Old-Age Pensions* (Mass. Comm. on Pensions) Senate No. 5 (1925), pp. 41, 52.

⁶³ *Old Age Security* (N. Y. State Comm.), Legis. Doc. No. 67, 1930, p. 39. See Appendix, pp. 66-67, Table 6.

⁶⁴ *Economic Insecurity in Old Age*, *supra*, p. 15.

^{64a} *Id.* p. 15.

⁶⁵ In New York, in 1929, of all persons over 65, 49.4 percent were wholly dependent upon relatives and friends. *Old Age Security*, Legis. Doc. No. 67, *supra*, p. 39. In Massachusetts, in 1925, 35.4 percent of dependent aged not cared for by charity were in this class. *Report on Old Age Pensions*, Senate No. 5, *supra*, pp. 48, 49, 56. In Michigan cities, in 1935, one-third of all unemployed men over 65 were dependent upon relatives. Haber, W., and Stanchfield, P. L., *Unemployment, Relief and Economic Security* (1936), p. 189.

⁶⁶ See Brief for respondent Collector in *Steward Machine Co. v. Davis*, No. 837, p. 17; *Economic Insecurity in Old Age*, *supra*, pp. 37-52.

⁶⁷ *Hearings before the House Committee on Ways and Means*, *supra*, p. 220; Nassau, M. L., *Old Age Poverty in Greenwich Village* (1915), pp. 70, 72.

⁶⁸ *Report of the Pennsylvania Commission on Old Age Assistance* (1925), p. 41.

⁶⁹ Several studies show the inability of the family to care for its aged. In Wisconsin, in 1933, 30 percent of the persons receiving public old age assistance were dependent upon relatives at time of application. *Old Age Assistance in Wisconsin* (State Board of Control, 1933), p. 23. In Pennsylvania, in 1924, the corresponding figure was 52.7 percent. *Report of the Pennsylvania Commission on Old Age Assistance* (1925), p. 43.

group of unmarried or childless the only resort is to charity or public support.⁶⁰

Although many industrial establishments and worker groups have long been aware of the need for assistance to the aged worker and have, therefore, set up privately operated pension systems, group insurance, and trade union pension systems, these systems have, at most, a limited coverage and are frequently open to several fundamental objections.

Industrial pension systems, beginning in this country in 1875, have developed largely since 1900,⁶¹ but even by 1930 only 4,000,000 employees in the United States and Canada (including employees in the railroad industry and other activities not covered by Title II of the Social Security Act) were covered by some 400 plans, and in 1931 approximately 90,000 persons—one percent of the aged population—received pensions from these private systems. These pensions averaged, at most, \$14 a week.⁶² As industry begins to experience the increasing burden of the aged, many of these plans break down or are sharply curtailed, due to rapidly mounting costs and failure to set up proper reserves.⁶³ Moreover, these plans often reduce labor's freedom of movement, since benefits are usually dependent upon maintaining a connection with a particular company until old age is reached. The necessity of remaining with a particular employer in order to receive a pension often causes workers to submit to poor working conditions. And even this submission may not achieve its purpose, since these private pensions are usually pure gratuities which may be revoked at any time or may be lost if the employer becomes insolvent.⁶⁴

Group retirement plans, though much more satisfactory, are even more limited in coverage. From less than 20 group annuity contracts in force in 1924, the number has expanded to 441 in March, 1936, but on the latter date only 350,000 employees were covered,⁶⁵ and in 1935 only 6,559 persons in the United States and Canada received pension payments.⁶⁶

Another type of old age pensions is that provided by the workers themselves in the form of trade union pensions. In 1932 there were 25 unions, with a total membership of 1,500,000, with one or more forms of superannuation or permanent and total disability relief plans.⁶⁷ Benefits, however, have been small; the total payments to 1928 for this purpose in all unions was \$21,500,000,⁶⁸ in 1928 the total beneficiaries numbered only about 11,000,^{69a} and in 1934 only \$3,912,940 was devoted to this purpose.⁶⁹ Failure to establish such plans on a sound actuarial basis, coupled with the fundamental difficulty of the high cost of any pension system for old age, has resulted in either greatly decreased benefits or abolition of the plans.⁷⁰

⁶⁰ Three-fourths of persons dependent on organized charity in their homes in Massachusetts, in 1924, had no living children. *Report on Old Age Pensions* (Mass. Comm. on Pensions, 1925), p. 115. The same was true of two-thirds of old people receiving charitable care in California. *Old Age Dependency* (Calif. Dept. of Social Welfare, 1928), p. 35. Over 91 percent of residents in fraternal and benevolent homes were single or widowed in Massachusetts in 1924. *Report on Old Age Pensions, supra*, p. 114.

⁶¹ Wyatt, B. E., *Private Group Retirement Plans* (1936), p. 21; *Old Age and Disability Pensions*, Sen. Doc. No. 140, 70th Cong., 1st Sess., p. 99.

⁶² Latimer, Murray Webb, *Industrial Pension Systems in the United States and Canada* (1932), pp. 869, 995-996. Data for the United States and Canada are not separately reported. The Bureau of Labor Statistics in 1928 found the prevailing monthly grant to be much smaller—\$20 to \$25 per month. Conynghton, M., *Industrial Pensions for Old Age and Disability*, Sen. Doc. No. 140, 70th Cong., 1st Sess., p. 124.

⁶³ Edwards, G., *Retirement Plans in Industry; Industrial Pension Plans Collapsing*, The Annalist (Nov. 20, 1925), p. 4; Latimer, M. W., *supra*, p. 939.

⁶⁴ *Economic Insecurity in Old Age, supra*, pp. 159-161.

⁶⁵ Wyatt, B. E., *Private Group Retirement Plans* (1936), pp. 24-25.

⁶⁶ *Industrial Pension Systems in the United States and Canada* (Industrial Relations Counselors, Inc., 1936), p. 19.

⁶⁷ Latimer, M. W., *Trade Union Pension Systems* (1932), p. 116.

⁶⁸ Appendix, p. 68, Table 7.

^{69a} *Economic Insecurity in Old Age, supra*, p. 165.

⁶⁹ Appendix, p. 68, Table 8.

⁷⁰ "On the whole the conclusion seems inescapable that the trade union pension system cannot much longer be maintained on their existing financial foundations and that attempts to strengthen these bases will result in such losses of membership as to make this alternative course impossible * * *

"The fundamental difficulty has been the unavoidable high cost of any pension system. Trade unions were handicapped from the start. The level of wages in the early nineteen hundreds in most trades was undoubtedly too low to permit the accumulation by wage earners, individually or collectively, of funds sufficient to pay adequate old-age benefits on sound actuarial principles. * * * The number of dependent and disabled members has grown faster than have the earnings of the members. It has simply not been possible for the active membership of the unions to support their dependent fellows and at the same time build up funds for their own future maintenance when sustaining employment is no longer available. Benefits of the type analyzed in this study are not the only ones which unions maintain; there are others for more immediate purposes so far as active members are concerned, such as for death, temporary disability, unemployment, and defense (strikes). It is entirely natural that the limited resources of wage earners should be devoted to immediate needs rather than to those of a distant and uncertain future." Latimer, M. W., *supra*, p. 125, 1924-1925.

The funds made available through private charity, unfortunately, are wholly inadequate to cope with a problem of such great magnitude. Our brief in *Steward Machine Co. v. Davis*, No. 837, pp. 20-21, and the very revealing reports of the Treasury as to the amount contributed by private persons to private charities,⁷¹ demonstrate that private charity does not receive large enough subscriptions to care for even the unemployed, much less for the aged, whose need is chronic, and for whom there is little or no chance of rehabilitation. Indeed, in large part no attempt is made to do so.⁷² As the magnitude of the problem becomes increasingly apparent, particularly since the recent depression, calls upon public agencies have rapidly increased. Almshouses⁷³ and hospitals for mental diseases,⁷⁴ obviously very limited in capacity, care for only a relatively small part of the indigent aged. Chief reliance, of necessity, has come to be placed upon public relief.

State old age assistance benefits, beginning in Montana in 1923, have increased rapidly since 1930. By February 1937, 40 States, the District of Columbia and the Territories of Alaska and Hawaii had passed old age assistance laws.⁷⁵ An average of 17.2 percent of all persons over 65 was so benefited, at a cost for that month of \$22,440,366.⁷⁶ During the year 1936, 1,111,054 aged persons received assistance under state laws at a cost of \$161,919,996, an average payment of \$18.76 per month.⁷⁷ Of this total, \$80,710,674 was contributed by the Federal Government under the provisions of Title I.⁷⁸

State laws, however, are subject to several inherent defects. Administratively, the migration of population during the course of a working lifetime⁷⁹ has been thought to create insuperable difficulties unless very high residence requirements are imposed.⁸⁰ Financial burdens are heavily weighted against the poorer States. Population changes added to many western States workers who soon will require—indeed already require—old age dependency assistance.⁸¹

⁷¹ In July 1935 approximately 1,000 welfare agencies in 118 of the larger urban areas of the United States reported that relief from private funds amounted to only 1% of the total relief expenditures of all kinds in those areas in that month. A year later, with the diminution of Federal Expenditures for public relief, the same source accounted for only 2.7% of all relief expenditures. See brief in *Steward Machine Co. v. Davis*, No. 837, at pp. 21-22.

⁷² The inability of private charities to rise to demands of economic depression is strikingly illustrated by the following figures from the records of the Bureau of Internal Revenue: In 1928 the 248 persons whose incomes ranged from \$1,000,000 to \$1,500,000 contributed an average of but \$30,000. In the same year the 3,000 persons whose annual incomes ranged from \$300,000 upwards limited their total contributions to an average of \$25,400 each. In 1930, however, when the demand for relief was more urgent and pressing the individuals in the groups receiving more than \$300,000 reduced their average contributions from \$25,400 to \$19,600. In 1931 they contributed only \$12,900. Instead of meeting the need for relief by proportionately larger contributions out of their incomes the wealthiest class retrenched to the extent of 50 percent as against 22 percent for all income tax payers. See Epstein, *Insecurity; a Challenge to America* (1936), p. 165.

⁷³ *Report on Old Age Relief* (Ind. Comm. of Wis., 1915), p. 11; *Old Age Dependency* (Calif. Dept. of Social Welfare, 1929), p. 29.

⁷⁴ At present there are probably between 40,000 and 50,000 people over 65 living in almshouses, a slight increase over 1923. *Number of Aged in Public and Private Institutions*, 1930, Monthly Labor Review, Feb. 1932, pp. 253-261; *Paupers in Almshouses* (U. S. Bureau of Census, 1923), p. 10.

⁷⁵ The number of persons over 65 in such hospitals probably slightly exceeds those in almshouses, and are becoming an increasingly large proportion of the total patients. *Statistical Abstract of the United States* (1934), pp. 73-74. In New York, in 1932, only 12.1 percent were paying patients. *44th Annual Report* (New York State Dept. of Mental Hygiene, 1935), p. 166.

⁷⁶ Appendix, pp. 69-70, Table 9.

⁷⁷ *Ibid.*

⁷⁸ Appendix, pp. 71-73, Table 10.

⁷⁹ *First Annual Report, Social Security Board*, Appendix IV, Table 15, p. 89.

⁸⁰ In 1930 one white person out of three was not residing in his State of birth, and in many western States the white population was only half indigenous. *Fiftieth Census*, 1930. Population, Vol. II, p. 147; Golpin, C. T., and Manny, T. B., *Interstate Migrations Among the Native White Population* (U. S. Dept. of Agric., 1934), p. 7. Since the Civil War there have been three major and innumerable minor trends of migration in the United States. Goodrich, C., and others, *Migration and Economic Opportunity* (Report of the Study of Population Redistribution, 1936), p. 678. See Thornthwaite, C. W., *Internal Migration in the United States*, loc. cit., and Bulletin No. 1 of the same study; *Economic Insecurity in Old Age*, supra, pp. 197-200.

⁸¹ Douglas, Paul A., *Social Security in the United States* (1936), pp. 35-36; S. Rep. No. 628, supra, p. 5; *First Annual Report, Social Security Board* (1936), p. 8.

⁸² In Oregon, in 1934, 82 percent of those who applied for old-age pensions were born outside the State. Kehrl, H., *The Operation of the Oregon Old-Age Pension Act*. Commonwealth Review, Vol. XVI, No. 5 (Jan. 1935), pp. 205-221; Oregon University, Bureau of Municipal Research, p. 215. In California, in 1924, 6 percent of the dependent aged were born in the State, and 33 percent had lived there less than 20 years. *Old Age Dependency* (Calif. Dept. of Social Welfare, 1928), p. 34. In Wisconsin, in 1931, 66 percent of the aged receiving public assistance were born in other States or were foreign born. *Old Age Assistance in Wisconsin, 1931* (State Board of Control, 1931), p. 8; *Economic Insecurity in Old Age*, supra, p. 200.

States having a large number of residents who work in other States would bear a part of the burden of old age dependency disproportionate to the taxable payroll within the State.^{81a} Moreover, although all parts of the United States contribute to the production of wealth, sources at which that wealth may be tapped by taxation are highly colonized in a few favored States (cf. *Dane v. Jackson*, 256 U. S. 589, 599-600), with the results that many States are unable adequately to support educational institutions⁸² and public welfare services,⁸³ much less to care not only for the tremendous burden of emergency relief imposed during the depression,⁸⁴ but also for the constantly augmenting group of aged persons.

The disparate financial resources of the States, together with the natural reluctance of any one State to act alone in imposing additional tax burdens on industry,⁸⁵ have resulted in establishing scales of benefits that vary widely, and are frequently absurdly low. The average payment for February 1937 was \$18.76,⁸⁶ and in four of the States was no more than \$4.02, \$9.04, \$10.05, and \$10.46, respectively. Even these low payments, it is to be noted, were possible only because half of the benefits and a large part of the administrative costs were paid by grants of the national government made under title I. These grants-in-aid, amounting to \$11,030,459, were paid to 40 of the States.⁸⁷

That part of the cost of the State programs *which the States alone will bear*, would, in the absence of Title II, by 1950 rise to approximately \$700,000,000, even if the Federal Government continues to make subventions to States under Title I.⁸⁸ In view of the fact that the maximum amount spent by States and localities in any one year for relief of all age groups was less than half a billion,⁸⁹ it is wholly unlikely that they will be able, in the next few years, to raise the even larger sums required for permanent public support of the aged.

It might be asked why the old age dependency problem was not dealt with in some such fashion as was adopted in Title IX with respect to the problem of unemployment compensation. Two principal obstacles stood in the way of a tax-credit method of encouraging States to set up old-age plans similar to their unemployment compensation systems.

In the first place, the population structure varies quite widely as between different States. Some States have a higher percentage of aged than do other States. Interstate migration, moreover, makes prophecy of future population trends—which are difficult enough for the nation as a whole—virtually impossible in dealing with particular States.

A uniform rate of tax collection by the separate States, therefore, would either produce very different rates of benefit payable by them, or would bankrupt some state plans while yielding large surpluses in others. And as a matter of long-range planning, no one State could do much more than guess what benefit rates it could afford. A State with high benefit rates, moreover, would tend to attract those approaching old age, and that fact in itself would greatly complicate actuarial computations and jeopardize solvency.

In the second place, if benefits were to be based on past earnings, the migration of labor from State to State would make the keeping of records virtually impossible by separate States—not to mention the transfers of funds from State to State that would be necessary if the system were to operate equitably. See Brown, *Development of the Old Age Insurance Provision*, Law and Contemporary Problems, Vol. III, pp. 186, 191-192.

The economic situation with respect to old age benefits is far different from that with respect to unemployment compensation. Individual unemployment, at least so far as it has been deemed possible to provide for compensation against it, is characteristically of short duration. It emerges in many forms; it does not affect more than a minority of the gainfully employed at any time, and many

^{81a} The situation would be particularly acute in Connecticut (many of whose citizens work in New York City), in New Jersey (many of whose citizens work in New York City and Philadelphia), and in Indiana (many of whose citizens work in Chicago). Numerous other instances of the same kind could be cited.

⁸² Norton, K., *American Educational Finance* in Studenski, *Taxation and Public Policy*, ch. VI, pp. 95-107; *Economic Insecurity in Old Age*, *supra*, p. 184-185.

⁸³ *Hearings on Economic Security Act* (S. 1130), Senate Committee on Finance, 74th Cong., 1st Sess., pp. 376, 378, 382.

⁸⁴ Appendix, pp. 74-75, Table 11.

⁸⁵ See brief in *Steward Machine Co. v. Davis*, No. 837, pp. 25-26.

⁸⁶ Appendix, p. 69, Table 9.

⁸⁷ Public Assistance Monthly Statistics for the United States (Social Security Board, February 1937), Vol. II, No. 2, p. 2.

⁸⁸ *Hearings before Senate Committee on Finance*, 74th Cong., 1st sess., on S. 1130, p. 84, Table III. *Economic Insecurity in Old Age*, *supra*, p. 205.

⁸⁹ Appendix, pp. 74-75, Table 11.

never experience it at any time. It is a product of human relationships which may be changed and controlled. Old age and retirement are, apart from death, inevitable. Once its incidence is felt it is, with rare exceptions, permanent, and its duration is appreciable. It emerges in the same form; it terminates in the same ways. While medical science and industrial practices and needs may move the age of onset and affect duration, its fundamental characteristics are not altered.

A standardized cost for unemployment benefits means variations in benefit rates and vice versa. But these are temporary, not permanent variations; and such migration as there is tends to reduce dispersion. The volume of migration, however, is but little affected; men give little weight in their calculations to a brief benefit which, they hope, they will never have to receive.

Provisions of benefits for the unemployed takes into account relatively short periods, but provision of benefits for the aged takes into account a life time. Administrative differences arising from this fact are considerable. Migration may affect record and disbursement problems for unemployment compensation to but a slight degree, but each case of migration affects old age benefit needs and disbursements.

2. The benefits under title II are for the general welfare of the United States

In the light of the above facts, which were fully developed in extensive hearings before both the Senate and the House of Representatives,⁹⁰ we submit that whatever criteria be adopted, the old age benefits under Title II are for the general welfare. Certainly, these payments meet the tests suggested by Story:⁹¹ the object—relief of the aged unemployed—is general, not local, in character, and the operation of the appropriation extends in fact throughout the nation. If national character of the problem be a criterion, it would be difficult to imagine a case in which clearer proof exists. If it be the quality of the results which flow to the general body politic, again the proof is overwhelming. Today no one, no matter how wealthy, can be sure that he will have funds in his old age. Even what he saves may be wiped out in a depression, and he cannot even know for how long an old age he must provide. Thus any man may justifiably fear for his financial position in his last years. The payments contemplated under Title II, and the policy therein embodied, will, for multitudes of people, eliminate the insistent dread of eventual poverty. Even those who are fortunate enough to possess small savings and who are willing to live upon the capital they have accumulated during productive years will no longer live in dread that it will be exhausted before they die. Moreover, the circle by which old age dependency promotes old age dependency will, in some measure, be broken. Family funds formerly required to support aged parents and grandparents may, instead be used for pressing needs of the family which heretofore have so often wiped out its savings and forced it into debt. Benefit payments will constitute a valuable addition to purchasing power in periods of depression. It is for reasons such as these that 20 foreign countries have established old age insurance and pension systems.⁹²

We do not contend that the inability of the States to perform a function creates a new national power to do so. However, where the national government already has a power, as it has the power to spend for the general welfare of the United States, the inability of the States to act may furnish the occasion for the exercise of the power. Thus when the question is whether an expenditure is for the general welfare, the fact that the States acting alone are, for many reasons, handicapped, is highly significant.

Future aid by the States will, of course, be an essential supplement to Title II. Those who are not included within the benefits, those whose earnings were so low or whose working life was so short that the benefits under Title II are insufficient, those who need particular care due to sickness, accident, or other unpredictable hazard, must be cared for under the State old age assistance laws, financed in part through grants under Title I. Similarly, as business men have already realized,⁹³ existing and new industrial pension plans will provide valuable complements to the grants under Title II.

⁹⁰ See p. 48, *supra*.

⁹¹ Story, *Commentaries on the Constitution of the United States* (5th ed.), Vol. I, Sec. 978.

⁹² *Report of Committee on Economic Security, supra*, pp. 69–70.

⁹³ It is interesting to note that few, if any, private pension plans have been abandoned because of the passage of the Social Security Act. Indeed, the passage of the Act, far from discouraging private pension plans, has stimulated new private plans. See Witte, *supra*, p. 33.

We submit, therefore, that an appropriation for the purpose of paying benefits to aged persons under Title II is for the general welfare of the United States.

3. The provisions of Title II are soundly designed to promote the general welfare

Even assuming that respondent has a standing to question whether the broad purpose for which expenditures are to be made under Title II is one which falls within the general welfare clause, we submit that he has no standing to question either the form or the propriety of any particular benefit or exclusion from benefit. Since the broad purpose of Title II is for the general welfare, clearly the invalidity of any particular benefit or exclusion would not cause the whole statute to fall. Cf. *Field v. Clark*, 143 U. S. 649, 695. Respondent is, in other words, unaffected in any degree by the specific provisions. Moreover, the benefits under Title II are, like pensions, to be given or withheld in the discretion of Congress. *Walton v. Cotton*, 19 How. 355; *United States v. Teller*, 107 U. S. 64, 68; *Frisbie v. United States*, 157 U. S. 160.

a. The simple means test provided by the statute

By Section 202 (a) of the Act every qualified individual—defined in Section 210 (c) as one who has reached the age of 65, and who, before reaching 65, and after December 31, 1936, has earned total wages of \$2,000 with respect to covered employment on at least one day in each of five different calendar years—shall be entitled to a monthly benefit payment, not to exceed \$85, based on his past earnings. By Section 202 (c) no benefit payment is to be made to an otherwise qualified person so long as he is regularly employed.

The Act thus provides a practical means test which is well adapted to the problem of old age dependency of the industrial worker: no monthly benefits are payable unless the recipient is over 65 and not employed.⁹⁴ We have shown that the great proportion of industrial wage-earners who reach 65 are either dependent upon their current earnings from employment or upon public, private, or family aid. Those workers who are 65 years of age or over, and are unemployed, may reasonably be deemed to be in need of the monthly benefits. The number of industrial workers who reach that age and are not in employment but have sufficient savings to carry them through the remainder of their life span is relatively small.

Any further qualifications by which to test the need of an aged person for benefit payments are open to several serious objections.⁹⁵ A strict means test puts a premium on indigency and discourages thrift, for those who had, by personal sacrifice, saved a sufficient amount to eke out a living in their old age would be barred, while those who have not saved would be supported by the public.⁹⁶ Many, if not most, of the needy aged have arrived at that state through no fault of their own; to compel them, as a requisite of old age benefits, to undergo the humiliation of a means test, would be grossly unfair. Many of this class undoubtedly would forego needed assistance which had to be purchased at that sacrifice, not only by themselves but also by their relatives.⁹⁷

Purely as a matter of administration, a rigid means test under Title II would create an enormous problem. To be effective, it requires constant investigation of all of the property and income, not only of the applicant, but also of all those under an obligation to support him. In addition, the information must be verified from all possible sources. An indication of the administrative problem may be gathered from the fact that 5,000 investigators were required to administer a means test under the British Unemployment Assistance Act to 749,105 applicants and discovered from that total only 36,595 who were actually disqualified.⁹⁸ It goes without saying that the more effectively the test is applied, the more costly its administration, the more severe its humiliation, and the greater its discouragement of thrift. To the degree that the test is loosely applied, fraud is encouraged.⁹⁹

⁹⁴ Sen. Rep. No. 628, *supra*, pp. 3, 10.

⁹⁵ See, generally, *Report of Departmental Committee on Old Age Pensions* (London, 1919), pp. 9-10; *International Labour Conference* (Geneva, 1933), p. 121.

⁹⁶ Sen. Rep. No. 628, *supra*, p. 6; Bakke, *Insurance or Dole*, pp. 193-194.

⁹⁷ See Kiehel, *Unemployment Insurance in Belgium* (1932), p. 193; Hohman, *British Social Insurance and Minimum Wage* (1932), p. 235; Workuston, E., and Butler, C., *Disallowed: The Tragedy of the Means Test* (London, 1935); Burns, *Toward Social Security* (1936), p. 140.

⁹⁸ *Report of Unemployment Assistance Board* (1936), pp. 20, 76-78.

⁹⁹ *Report of Unemployment Assistance Board*, *supra*, p. 20; Folke, *Making Relief Respectable*, *Annals of Am. Acad. of Political and Social Science* (Nov. 1934), p. 158-159.

Moreover, the gearing of the amount of benefits to employment and wages has the positive merit of promoting industry of workers. The greater the industry of the worker and the more he earns during his lifetime, the larger the benefits that will be paid to him. This method of determining eligibility and the amount of benefits parallels the present incentives to industriousness. See p. 82, *infra*.

There can be no question of the power of Congress to decline to impose any means test. In *Mountain Timber Co. v. Washington*, 243 U. S. 219, this Court said, in sustaining the Washington workmen's compensation law (p. 240):

It is said that the compensation or pension under this law is not confined to those who are left without means of support. This is true. But is the State powerless to succor the wounded except they be reduced to the last extremity? Is it debarred from compensating an injured man until his own resources are first exhausted? This would be to discriminate against the thrifty and in favor of the improvident. The power and discretion of the state are not thus circumscribed by the Fourteenth Amendment.

See also *Chamberlain v. Andrews*, 271 N. Y. 1; *Honess Bros. v. Mass. U. C. Commission* (Mass Sup. Jud. Ct.), decided December 30, 1936, 5 N. E. (2d) 720 (not officially reported); *Beclund Wholesale Co. v. Kaufman* (Ala. Sup. Ct.), decided March 17, 1937.

b. Size and time of payment of benefit payments

The Act provides that there shall be paid to qualified individuals over 65 years of age monthly benefits not to exceed \$85 per month,¹ measured by a weighted percentage of the total wages paid over a beneficiary's years of work, wages to include only the first \$3,000 of wages earned in any one year from any one employer [Section 210 (a)]. Both the age limit and the weighted scale of benefit payments are, we submit, eminently reasonable.²

The choice of 65 years of age for the beginning of benefits is based on both American and European experience. The retirement age in private American plans is predominantly 65, with 60 as the next most common age;³ in state pension plans the balance between 65 and 70 is almost even.⁴ Other Federal plans set the retirement age at from 62 to 70.⁵ In foreign countries 65 is the most usual age, with many plans using a retirement age between 50 and 60.⁶ The provision setting a maximum rate is justified by similar precedents.⁷

The measurement of benefits by wages and length of service⁸ is also based on precedent both here and abroad. Length of service is a factor widely used in private industrial plans,⁹ and is common in foreign statutes.¹⁰ Measurement of benefits by wages is even more common, due to the encouragement which it gives to thrift and industriousness.¹¹

¹ Until 1965 the number of monthly benefits 70-85 is not expected to exceed 0.05% of the monthly benefits paid. In 1980, it is estimated not to exceed 3.3%. From 1945-1955, the highest percent of benefits paid will range from \$10-\$25; from 1955-1975 it will range from \$25-\$40. In 1980 it is estimated that 15.7% of benefits will range from \$10-\$25, 26.9% from \$25-\$40, 35.8% from \$40-\$55, 18.3% from \$55-\$70, and 3.3% from \$70-\$85.

² The date of December 31, 1936, from which calculations of wages are to be made (Section 202 (a)) was necessary to allow sufficient time for proper wage records to be set up. The minimum sum of \$2,000 over a period of 5 years upon which to base a benefit (Section 210 (c)) was necessary to justify the cost of administration.

³ Latimer, M. W., *Industrial Pension Systems*, *supra*, p. 504, Table 9.

⁴ Hearings on H. A. 4120, House Committee on Ways and Means, 74th Cong., 1st Sess., p. 78, Table 15; Sen. Rep. No. 628, *supra*, p. 5.

⁵ Retirement of civil service employees—60-70. Act of May 29, 1930, c. 349, 46 Stat. 468, sec. 1 (U. S. C., Title 5, sec. 691). Army—62-64. Revised Statutes, sec. 1244 (U. S. C., Title 10, sec. 944); Act of June 30, 1882, c. 254, 22 Stat. 118 (U. S. C., Title 10, sec. 945). Navy—64-70. Revised Statutes, sec. 1441, as amended (U. S. C., Title 34, sec. 384); Act of July 1, 1918, c. 114, 40 Stat. 704, 709 (U. S. C., Title 34, sec. 396).

⁶ *Public Old-Age Pensions and Insurance in the United States and in Foreign Countries* (U. S. Dept. of Labor, Bureau of Labor Statistics, Bulletin No. 561, p. 98, Table II: *Compulsory Pension Insurance* (International Labour Office, Studies and Reports, Series M, No. 10), p. 212.

⁷ See authorities cited in footnotes 4, 6, *supra*.

⁸ See Appendix, p. 64, Table 1.

⁹ Latimer, M. W., *Industrial Pension Systems* (1932), p. 105, Table 18.

¹⁰ *Compulsory Pensions Insurance*, *supra*, p. 216 *et seq.*

¹¹ American Workman's Compensation and unemployment compensation plans, both public and private, overwhelmingly adopt wages as a measure for benefits, and wages are widely used in foreign plans for old age pensions, unemployment insurance, and health insurance. *Public Old-Age Pensions in the United States and in Foreign Countries* (U. S. Dept. of Labor, Bureau of Labor Statistics, Bulletin No. 561), p. 98, Table 2; *Unemployment Benefit Plans in the United States and Unemployment Insurance in Foreign Countries* (U. S. Dept. of Labor, Bureau of Labor Statistics, Bulletin No. 544), pp. 27-78, 183-360; *Health Insurance* (Metropolitan Life Ins. Co., Monograph III), Chart I.

Moreover, in a national plan of benefits, relationship to wages fulfills a function which deserves emphasis. It relates benefits to past standards of living. Thus it automatically adjusts payment to prevailing and differing standards of living in different parts of the United States and in communities of different sizes. Yet this principle has not been carried to an extreme. Benefits have been weighted in favor of the lower wage groups, so that persons presently in middle age will not be discriminated against by having small total wages earned after December 31, 1936. This weighting also has the merit of assuring those who have worked for a comparatively long period of years for a small wage that they will receive a sufficient benefit to obtain a fair measure of independence.

c. The lump sum payments under sections 203 and 204

The provision of Section 203 (a), by which the estate of an individual who dies before attaining the age of 65 is paid a sum proportioned to the amount of wages the individual has earned is soundly designed to promote the fairness of the benefits. The payment is clearly incidental to the major plan of Title II,¹² but serves to ameliorate, at least in part, the financial crisis and distress in the average family of low income when the income of the breadwinner ceases by reason of death. Moreover, the provision assures the worker that in distributing benefits the Government will give appropriate recognition to the part he has played in financing the Government by paying taxes under Title VIII.¹³

The other two provisions for lump sum payments are merely for convenience of administration. Ordinarily, administrative errors or delays in payment of benefits may be adjusted by increasing or decreasing subsequent benefits [Section 202 (c)], but in the event that an individual dies before an adjustment of an underpayment can be made in this way, a lump sum may be paid to his estate pursuant to Section 203 (c).^{13a} Finally, for convenience in administration, if an individual has not worked for at least one day in each of five separate years since 1936, or has not earned a total of \$2,000, there is paid to him or to his estate, instead of a very small monthly benefit payment, a lump sum equal to 3½ percent of the wages he has earned between January 1, 1937, and the time he attained 65. Section 204 (a), (b).

d. Exclusions

At the outset, it should be noted that Congress is not required to reach every person who may be in need. As this Court said in *Miller v. Wilson*, 236 U. S. 373, 384:

Dealing with practical exigencies, the legislature may be guided by experience. * * * It is free to recognize degrees of harm, and it may confine its restrictions to those classes of cases where the need is deemed to be clearest.

See also *Sproles v. Binford*, 286 U. S. 374, 396; *Silver v. Silver*, 280 U. S. 117, 123; *West Coast Hotel Co. v. Parrish*, No. 293, March 29, 1937. However, even assuming that the various exclusions from the grant of benefits are subject to a test as rigorous as those of a regulatory statute, we submit that they are completely justified.

The inclusion of agricultural and domestic labor [Section 210 (b) (1) (2)] would have involved tremendous practical difficulties. No records of wages are usually kept; wages are, in large part, in food, lodging, or, in the case of agricultural labor, percentage of produce. With respect to agricultural labor, contracts with tenants involving widely diverse provisions with regard to labor, seed, animals, machinery and crops would have created difficulties in determining whether an employee or an independent contractor relation existed. Casual labor [Section 210 (b) (3)] would also have involved difficulty in maintaining adequate records. Low wages and intermittent employment might render the benefits less adequate than assistance under Title I. Moreover, neither the agricultural worker nor the domestic servant is exposed to that aspect of the

¹² Assuming 17-19 as the average age at which a worker will enter industry, approximately two-thirds of all workers will attain the age of 65. Dublin and Lotka, *Length of Life* (1936) pp. 14-16. Thus most of the benefits under Title II will be old age monthly pensions, not lump sum payments. Moreover most of the money paid under Title II will be for monthly benefits not lump sum payments. See Appendix, pp. 78-79, Tables 14, 15.

¹³ The same considerations justify Section 203 (b), by which a person who, having become entitled to benefits upon reaching 65, dies before having received in monthly pensions an amount equal to 3½ percent of the wages paid him after January 1, 1937.

^{13a} The converse situation, when an individual dies before an adjustment of an overpayment can be made pursuant to Section 202 (c) is covered by Section 206.

problem of indigent old age which is peculiar to the urban, industrial civilization.¹⁴ Similar exclusions are customarily found in workmen's compensation acts (See *New York Central R. R. v. White*, 243 U. S. 188, 208) and their exclusion in old-age benefit systems is confirmed by foreign experience.¹⁵

Seamen [Section 210 (b) (4)] were excluded because the act contemplates benefits only for the employed within the United States [Section 210 (b)]; indeed, seamen have frequently been accorded a separate classification. Revised Statutes, Sec. 4501, as amended (U. S. C., Title 46, sec. 541); Act of March 4, 1927, c. 509, 44 Stat. 1424 (U. S. C., Title 33, c. 18). Most Federal employees [Section 210 (b) (5)] are already covered by a pension system,¹⁶ and employees of States [Section 210 (b) (6)] are excluded because of an unwillingness of Congress to intermeddle in the affairs of a State by pensioning its employees. Similarly, the exclusion of employees of charitable, educational, and other such organizations [Section 210 (b) (7)] is traditional.

The exclusion of the regularly employed aged [Section 202 (d)] is equally justifiable.¹⁷ Such persons are presumably self-supporting, and in no need of benefits, and their exclusion materially reduces the expenditures under the statute.¹⁸ Nor does the provision violate the Tenth Amendment. No compliance is "purchased", within the meaning of *United States v. Butler*, 297 U. S. 1. See pp. 95-102, *infra*.

Finally, taken as a whole, those excluded from the benefits of Title II are also excluded from payroll taxation. It has long been recognized that in classifying for the purposes of taxation, account may be taken of benefits received. *Norwood v. Baker*, 172 U. S. 269; *Union Transit Co. v. Kentucky*, 199 U. S. 194, 204; *Chicago, Burlington, &c. R'd v. Chicago*, 166 U. S. 226. It is equally reasonable in classifying for the purpose of making benefit, to take account of taxes paid.

IV

SINCE TITLE VIII AND TITLE II SEVERALLY CONSTITUTE VALID EXERCISES OF CONGRESSIONAL POWER, THEY ARE NOT VALID WHEN CONSIDERED JOINTLY

We have shown previously that the imposition of taxes by Title VIII constitutes a valid exercise of the taxing power of Congress and that the payment of benefits provided in Title II constitutes a valid exercise of the power of Congress to provide for the general welfare as granted in Clause 1 of Section 8 of Article I of the Constitution. It is contended, however, that even though these Titles are valid exercises of federal power when severally considered, they nevertheless become invalid if considered jointly as parts of a plan. The short answer to this contention is that it has never been supposed that a legislative act which is validly based in each of its parts on a granted power can be rendered invalid because of the combination of the separately valid parts. The constitutional propriety of basing a statute upon an aggregate of federal powers was sustained in *McCulloch v. Maryland*, 4 Wheat. 316, and has never since been doubted. Recently this Court pointed out that, "The broad and comprehensive national authority over the subjects of revenue, finance, and currency is derived from the aggregate of the powers granted to the Congress * * *." *Norman v. Baltimore and Ohio R. R. Co.*, 294 U. S. 240, 303. Nor is it at all significant that the joining together of several valid exercises of federal power results in a legislative plan which bears a resemblance to some activity ordinarily engaged in by private persons. Thus in the Act sustained in *McCulloch v. Maryland*, *supra*, the resultant of the Congressional exercise of aggregate powers was the establishment of a bank.

A detailed examination of respondent's contention will show its fallacy. It is argued that the joint exercise of the valid powers to tax and appropriate renders both parts of the statute invalid in that (A) the use of the avails of the tax to finance the expenditures contemplated under Title II deprives the tax of its quality as a tax and characterizes it as an unconstitutional exaction, and that (B) Titles II and VIII taken together constitute a plan which is regulatory in manner and therefore violative of the Tenth Amendment.

¹⁴ See pp. 52-62, *supra*.

¹⁵ *Compulsory Pension Insurance*, *supra*, p. 32 *et seq.*

¹⁶ See note, 5, p. 81, *supra*.

¹⁷ See pp. 77-78, *supra*.

¹⁸ Sen. Rep. No. 628, *supra*, p. 10.

A. THE TAXES IN TITLE VIII ARE NOT RENDERED INVALID BECAUSE LEVIED TO RELIEVE A DRAIN ON THE TREASURY OCCASIONED BY THE EXPENDITURES UNDER TITLE II

The contention that the taxes imposed by Title VIII are rendered invalid because of some connection with the benefits provided in Title II appears to have two aspects: (1) that the taxes are not true taxes because the avails are said to be earmarked; (2) that the taxes are not true taxes because the avails are said to be devoted to the benefit of a particular group.

1. It has already been shown that the avails of the tax are not in fact earmarked for any purpose. See Points I and II, *supra*, pp. 31-45. Congress may use the avails for any desired purpose. The direction contained in Section 201 of the Act constitutes only an authorization to appropriate and not an appropriation. However, even if the avails were in fact earmarked, the taxes would still be taxes within the meaning of the Constitution. A tax is no less a revenue measure because imposed to raise revenue for a specific purpose. The Constitution itself specifies the uses for which taxes may be levied (Article I, Section 8, Clause 1) and this Court has recognized that the relationship between taxation and expenditure is a normal and necessary incident of the legislative function. *Knights v. Jackson*, 260 U. S. 12, 15; *Patton v. Brady*, 184 U. S. 608, 620. There can be no objection if an act levying a tax also specifies the uses to which the avails are to be put, if those uses are within the purposes permitted by the Constitution.¹⁹

2. It is said, however, that the taxes imposed by Title VIII are not taxes in the constitutional sense but are mere expropriations of one group for the benefit of another, since it is contemplated that the funds derived from taxing employers and employees will be devoted to paying benefits to employees.

The answer to this contention is found in the clear language of Clause 1 of Section 8 of Article I of the Constitution which, as this Court has said, grants "the power to tax for the purpose of providing funds for the payment of the nation's debts and making provision for the general welfare." *United States v. Butler*, 297 U. S. 1, 64. If then, the payment of benefits under Title II is an expenditure for the general welfare, then a levy for the purpose of providing funds for such expenditure must *ipso facto* be a tax within the meaning of the Constitution.²⁰ Certainly the levy is not any the less an exercise of taxing power because it is intended to defray an expenditure for the general welfare rather than for some other support of government.

The charge that the Act is an expropriation from one group for the benefit of another is obviously without substance. The determination that the expenditures are for the general welfare is a determination that they are for the benefit of the taxpayers as well as for the benefit of the direct recipients of the expenditures. A tax does not cease to be one for the general welfare because the application of the proceeds is to one group of the population.

It would seem obvious that the employees' tax in Title VIII would not cease to be a true tax even if the proceeds were to be devoted in the first instance to the employees themselves. If the law were otherwise a gasoline tax, the proceeds of which were devoted to the construction of highways (thus benefiting motorists), would not be a true tax. Compare *Clark v. Poor*, 274 U. S. 554, in which a tax on motor carriers to provide funds for maintenance and repair of highways was upheld. It is not material that the avails of the tax are applied in the form of money rather than in the form of services. *Gillum v. Johnson* (Calif. Sup. Ct.), 62 P. (2d) 1037, 1044, not officially reported; *Beeland Wholesale Grocery Co. v. Kaufman*, decided by the Supreme Court of Alabama, March 17, 1937.

¹⁹ A more elaborate discussion of this point is contained in the Brief for the United States in *Cincinnati Soap Co. v. United States*, No. 659, October Term, 1936, pp. 28-33, to which this Court is respectfully referred.

²⁰ Of course, a levy which provides funds for the general welfare may not be a true tax if it lacks one of the characteristics expressly required by the Constitution, *e. g.*, uniformity. In such case the supposed tax will be upheld only if it is a proper exercise of some other granted power. For this reason the Court in *Hend Money Cases*, 112 U. S. 580, entered into an inquiry as to whether the tax there under consideration could be supported as a valid exercise of the power to regulate foreign commerce. It is to be noted, however, that the Court did not hold that the levy was not a valid tax. It may be that the Act was valid under either the taxing or the commerce powers. By the same token, the protective tariff is valid either as an exercise of the taxing power, *Hampton & Co. v. United States*, 276 U. S. 394, or of the commerce power, *Board of Trustees of the University of Illinois v. United States*, 289 U. S. 48. See also *Veazie Bank v. Fenno*, 8 Wall. 533. Since the taxes imposed by Title VIII do not violate either the canon of uniformity, or the prohibition against levying a tax on a State instrumentality, or any other constitutional limitation, and since (even if they be regarded as though they were earmarked) they are imposed for the purpose of providing funds for a general welfare expenditure, they must of necessity be true taxes.

Nor is the employers' tax any the less a true tax if the avails from that excise are viewed as if they were devoted to financing the expenditures under Title II. "The constitutional power to levy taxes does not depend upon the enjoyment by the taxpayer of any special benefit from the use of the funds raised by taxation." *Nashville, C. & St. L. Ry. v. Wallace*, 288 U. S. 249, 268; *Carley & Hamilton v. Snook*, 281 U. S. 66; *St. Louis & Southwestern Ry. Co. v. Nattin*, 277 U. S. 157, 159. The levy of taxes upon one group to provide proceeds for expenditures for the primary benefit of another group is a familiar and ancient exercise of the power of taxation.²¹ Indeed (as Prof. E. R. A. Seligman has pointed out in his *Essays on Taxation* (9th ed., 1923, p. 53), the whole system of local taxation in England has been developed from the so-called "poor rates" by which a tax is laid on occupiers of land to raise money to give to the handicapped poor and to set the able-bodied poor to work. 43 and 44 Eliz. c. 2 (1601); Halsbury's *Laws of England*, vol. 22, p. 521 *et seq.*, vol. 24, p. 1 *et seq.* Another example of a tax on one group to be expended for another group is the Massachusetts statute imposing income taxes for the express purpose of providing schools, upheld in *Knights v. Jackson*, 260 U. S. 12. The recent depression has called for a host of special local taxes such as sales taxes and special taxes on utilities for the purpose of providing funds for relief. See, e. g., New York Laws of 1933, c. 815. *Southern Boulevard R. Co. v. City of New York*, 86 F. (2d) 633 (C. C. A. 2d). Reference may again be made to the state unemployment compensation laws. *Gillum v. Johnson*; *Beeland Wholesale Grocery Co. v. Kaufman*, both *supra*. All these are instances of the cardinal principle that a levy is a valid tax if its purpose is to provide funds for a valid expenditure. If the expenditure be within its powers the legislature may choose the subjects of the tax as it desires and if the tax falls on a class other than the class comprising the recipients of the funds, the tax is no more an invalid expropriation than if its proceeds were used to support any other governmental activity. To illustrate: a tax on employers or on any other class to finance relief expenditures for the sufferers from an earthquake or to finance a pension for the widow of a President of the United States would unquestionably be valid.

B. TITLES II AND VIII JOINTLY CONSIDERED DO NOT CONSTITUTE AN INVALID
REGULATORY SCHEME

Even though Titles II and VIII are valid separately considered, it is contended that they are invalid when considered together because they are said to constitute a regulatory scheme. The precise nature of this contention is not easily determined. It may be contended that the Act constitutes a regulation of employment in that it requires or induces retirement from employment, that the Act constitutes a scheme for compulsory insurance invalid under the Tenth Amendment, or that it constitutes a regulation of wages.

It is obvious from the face of the Act that it in no way constitutes a regulation of employment. The Act not only does not require retirement from employment, but it has no significant tendency to induce it. Indeed, since neither the employer nor the employee tax is levied with respect to an employee after the age of 65, the employment opportunities of elderly people will be increased. If the employee continues to work in a covered employment after attaining the age of 65 he will not be entitled to receive a benefit for any month in which he is employed, *but he suffers no reduction whatever in future benefits*. Thus he may continue to work as long as he desires or is able to without any fear of loss or diminution of benefits when he eventually retires or loses his job. On the other hand, since the benefits paid under Title II are small (in no case may they exceed \$85 per month) and are proportioned to wages earned in the past, they constitute little if any incentive to retire.

The further contention that might be made is that the Act is regulatory in nature because it constitutes a plan for compulsory insurance. Whether or not the Act does provide an insurance plan within the accepted meaning of the term "insurance" is a doubtful question. It is to be noted that the correlation between taxes paid and benefits received is far from complete. As the Executive Director of the Committee on Economic Security has pointed out, the Act favors the workers who at this time are already middle aged or over and those whose rate of pay is small. (Witte, *Old Age Security in the Social Security Act*, 45

²¹ An early example is the enactment of the Maryland legislature in 1822 providing for the assessment of an annual fee of five dollars upon all lawyers in the state, the proceeds being earmarked for a pension to be paid to Luther Martin. Maryland Laws, December Session 1821, Resolution No. 60.

Journal of Political Economy, at p. 13.) Thus some of the taxpayers receive benefits greater than the amount of taxes paid with respect to them. On the other hand, some taxpayers will receive benefits smaller than the amount of taxes paid with respect to them, plus interest, since the maximum benefit payable under Title II is \$85 per month. Moreover, the Act creates no contractual obligation with respect to the payment of benefits. This Court has pointed out the difference between insurance which creates vested rights and pensions and other gratuities involving no contractual obligations in *Lynch v. United States*, 292 U. S. 571, 576-577:

War Risk Insurance, while resembling in benevolent purpose pensions, compensation allowances, hospital and other privileges accorded to former members of the army or navy or their dependents, differs from them fundamentally in legal incidents. Pensions, compensation allowances and privileges are gratuities. They involve no agreement of parties; and the grant of them creates no vested right. The benefits conferred by gratuities may be redistributed or withdrawn at any time in the discretion of Congress. *United States v. Teller*, 107 U. S. 64, 68; *Frisbie v. United States*, 157 U. S. 160, 166; *United States v. Cook*, 257 U. S. 523, 527. On the other hand War Risk policies, being contracts, are property and create vested rights. The terms of these contracts are to be found in part in the policy, in part in the statutes under which they are issued and the regulations promulgated thereunder.

But whether or not the plan of the Act may properly be designated as old age insurance is in our view completely immaterial. A statute which involves nothing more than a valid exercise of the taxing power and a valid unconditional expenditure of benefits for the general welfare having no regulatory incidents must of necessity be valid whether the plan be labelled as insurance or not. In the statute considered in *McCulloch v. Maryland*, 4 Wheat. 316, the federal government through a valid exercise of its fiscal powers engaged in the business of banking. Here the federal government is certainly not entering into business, and if its activity can be designated "insurance", that fact is no more destructive of the validity of its exercise of its taxing and spending powers than was the designation of "bank" to the resultant of the exercise of powers in *McCulloch v. Maryland*. Since Congress has done nothing more than validly exercise two of its granted powers, the Tenth Amendment has no application. *Ashwander v. Tennessee Valley Authority*, 297 U. S. 288, 330.

Respondent contends that Title VIII "is an attempted statute to regulate the wage relation between employers and employees in employment within the several States * * *". It is a regulation of the terms of employment whereby the employer must as a part of the wage contribute something more for the old age of the employee" (Br. 59, 60). This contention is based on a false factual premise and upon unsound reasoning.

In making this contention respondent must be proceeding on the assumption that the Act constitutes an enforced addition by an employer to the wages of his employees. In the first place, it is manifest on the face of the statute, that the employer tax is not an enforced addition to wages at all. Even if it could in any case be an addition to wages, it is entirely within the control of the employer as to whether it should be added to wages or not. The statute does not prevent the employer from lowering the wages of his employees *pari passu* with the tax. Consequently, if in particular cases an addition to wages would result it would not be an *enforced* addition, and since it is not enforced it cannot possibly be a regulation.

In the second place, the employer tax does not constitute an addition by an employer to the wages of his employees. After the Act comes into full operation in 1949, many, and possibly all, of his employees may get nothing more than the equivalent of what they themselves paid in taxes plus interest, although it is of course true that many employees will get more than such equivalent amount. All employees who die before reaching the age of 65, and all employees who work for less than 5 years after January 1, 1937, and all employees who receive total wages of less than \$2,000 after January 1, 1937, will get only 3½ percent of the wages received by them (Section 203 (a); Section 204 (a)). Moreover, many employees will not live a sufficient length of time to draw total benefits exceeding the amounts paid in by them as taxes plus interest. It follows that it is entirely speculative how many, if any, of the employees of a particular employer will receive in total benefits more than the equivalent of the amounts paid in taxes by the employees themselves plus interest.²² Under these circumstances, it is

²² So much of the Old Age benefits as are attributable to interest will be met by the Old Age Reserve Account from the interest earned on the bonds held by it. Interest on these bonds will be paid like interest on other Government bonds and from the same sources.

nothing more than a play on words to speak of the Act as a "regulation" of the wage relationship.

Petitioner may contend, further, that even if the Act does not constitute a regulation of the wage relationship between an employer and his employees, it is nevertheless a regulation of the wage relationship between employers as a class and employees as a class. Putting aside the question as to whether there can be said to be a "wage relationship" between these two classes, it is manifest that there is no regulation in any sense because, as we have shown, there is no *enforced* addition to wages, since the employer class is legally free to recoup itself from the employee class.

Moreover, if the tax be a true tax, as we have shown earlier, it is immaterial that it affects the *financial* relationship between the two classes, *i. e.*, that employees as a class will receive more money than they would have received were it not for the statute. Compare *Barwise v. Sheppard*, 299 U. S. 32, 40-41.

We have shown earlier that the purpose of Title II of the Act is to pay benefits to aged persons, and that this purpose is within the granted power of Congress to make expenditures for the general welfare. Respondent now contends that, however valid the end of the statute may be, it becomes an unconstitutional regulation of the wage relationship merely because of the method of financing the expenditures. But if Congress may spend for the general welfare, it has a free choice of the means to be adopted for raising the funds provided that the means be not prohibited by the Constitution. "To a constitutional end many ways are open." *Carter v. Carter Coal Co.*, 298 U. S. 238, 291. Again we say, if the taxes of Title VIII are valid taxes, and if the expenditures of Title II are valid expenditures, the combination of the two cannot render the whole invalid.

It is true, of course, that the States themselves might, as a matter of law, lay similar taxes and make similar expenditures (although the States as a matter of economics have been unable to do so. (See pp. 70-72, *supra*.) But it cannot be contended that the tax and expenditures are, therefore, forbidden to the Federal Government. The same subjects of tax and objects of expenditure may be open to the States as well as to the Federal Government. Indeed, where the object of the expenditure is the general welfare of the United States it is presumably also, from the point of view of an individual State, for a public purpose. It cannot be doubted, for example, that grants for the relief of distress are within the power of Congress and the States alike. What was said in *Hoke v. United States*, 227 U. S. 308, 322, is particularly relevant with respect to the powers of taxation and expenditure:

Our dual form of government has its perplexities, State and Nation having different spheres of jurisdiction, as we have said, but it must be kept in mind that we are one people; and the powers reserved to the States and those conferred on the Nation are adapted to be exercised, whether independently or concurrently, to promote the general welfare, material and moral.

These reasons make it clear that *United States v. Butler*, 297 U. S. 1, has no application here. There both the tax and the expenditure were deemed to be regulatory in purpose and effect. The Court pointed out that a tax went into effect automatically when the Secretary of Agriculture determined that rental or benefit payments were to be made and was to cease when the payments ceased; the rate was fixed "with the purpose of bringing about crop-reduction and price-raising" (297 U. S. at 59). The expenditures were made only if the recipient entered into a contract to reduce his acreage. Here the recipient of the expenditure makes no contract and need follow no specified course of conduct.

Nor is *Railroad Retirement Board v. R. Alton R. Co.*, 295 U. S. 330, applicable. The statute there considered was enacted in the exercise of the power to regulate interstate commerce. The preamble stated its purpose to be the promotion of efficiency and safety of interstate transportation. It was not considered to be a taxing act by Congress, no attempt was made to base it on the taxing power, and it was considered by this Court solely on the basis of the commerce clause.²³ Moreover, the Railroad Retirement Act was clearly a regulation on its face. Section 4 of that Act provided in terms that retirement should be compulsory upon employees who attained the age of sixty-five. (The date of retirement could be postponed in certain cases but not beyond the age of 70.) This provision was one of the essential features of the Act since one of its announced pur-

²³ This Court has held that a statute invalid if enacted under one of the federal powers may be valid if enacted under another appropriate power and limited in accordance with that power. Compare *Hill v. Wallace*, 259 U. S. 44, with *Chicago Board of Trade v. Olsen*, 262 U. S. 1.

pose was "to make possible greater employment opportunity and more rapid advancement of employees in the service of the carriers." We have already pointed out that the statute at bar not only does not require retirement from employment, but does not even induce retirement since a man may continue to work after 65 without any future reduction of benefits.

Moreover, the Railroad Retirement Act conferred express power on the administrative agency to substitute the statutory pension plan for existing voluntary pension plans of the carriers. This again was clearly regulatory. The statute at bar does not interfere with existing voluntary pension plans. In fact, large industrial enterprises have found it altogether feasible to correlate their pension plans with the benefit payments provided in Title II.²⁴

Lastly it should be observed that the Railroad Retirement Act was held violative of the due process clause of the Fifth Amendment upon various grounds, none of which is here present.

In the opinion of the court below reference was made to a decision of the Supreme Court of Canada holding the Canadian Employment and Social Insurance Act (25 and 26 Geo. V., c. 38) to be *ultra vires* the Dominion Parliament. *Reference re: The Employment and Social Insurance Act* [1936] S. C. R. 427, affirmed by the Judicial Committee of the Privy Council, *Attorney-General of Canada v. Attorney-General of Ontario*, Privy Council Appeal, No. 101 of 1936. It is to be noted that the Canadian Act was not intended by Parliament to be a taxing act; the preamble stated that it was enacted to discharge the obligations of the Dominion under the Treaty of Versailles. Indeed the Dominion powers of taxation and appropriation "were only faintly advanced by counsel for the Dominion in favor of the legislation." [1936] S. C. R., at 452. The Canadian Act expressly provided that the employer's contribution could not be deducted from the wages of the employee (Second Schedule, Part II, par. 8). To that extent perhaps it could be said that the Act was a regulation of contracts of employment. We have already pointed out that the Act at bar leaves the employer legally free to lower or raise wages as he desires. It should also be pointed out that an Old Age Pensions Act, whose validity does not appear to have been questioned, has been in force in Canada for a number of years. Revised Statutes of Canada, Chap. 156.²⁵

V

THESE TAXES DO NOT CONTRAVENE THE FIFTH AMENDMENT

In Point IV, *supra*, pp. 87-104, we have disposed of the contention that Titles II and VIII taken together violate the Fifth Amendment by reason of the alleged taking of property from one class for the benefit of another. There remain two issues to be considered in the light of the due process clause. First, it may be urged that the selection of the specified employments for taxation is capricious, and second, that it is arbitrary to limit the tax to the first \$3,000 of wages.

As a result of the definitions in Section 811 (b), various types of employment, such as agricultural labor, domestic service in a private home, and for charitable institutions are not subject to tax. There is no violation of due process in these selections. "In the exercise of its constitutional power to lay taxes, Congress may select the subjects of taxation, choosing some and omitting others."

²⁴ See Wyatt, Birchard E., *Private Group Retirement Plans* (1936).

²⁵ The basic differences in structure between the British North America Act and the United States Constitution require that great caution be used in resorting to analogies from Canadian constitutional law. The British North America Act contains no general welfare clause such as is contained in Article I, Section 8, clause 1 of our Constitution. While the Dominion Parliament has a residual power to legislate "for the peace, order, and good government of Canada," this general residual authority is sharply limited by the express grant of numerous *exclusive* powers to the Provinces. For illustrations of the special problems raised by the British North America Act see *Russell v. The Queen*, 7 A. C. 829; *John Deere Plow Co. v. Wharton*, 18 D. L. R. 353. [1915] A. C. 330; *Attorney-General for Canada v. Attorney General of Alberta* [1916], D. L. R. 288. Canadian constitutional law constitutes a system very different from our own and the words of Mr. Justice Holmes, with reference to Spanish law, in *Diaz v. Gonzales*, 261 U. S. 102, 106, are highly pertinent:

"When we contemplate such a system from the outside it seems like a wall of stone, every part even with all the others, except so far as our own local education may lead us to see subordinations to which we are accustomed. But to one brought up within it, varying emphasis, tacit assumptions, unwritten practices, a thousand influences gained only from life, may give to the different parts wholly new values that logic and grammar never could have gotten from the books."

Sonzinsky v. United States, No. 614, March 29, 1937. Further authorities that selections of the subjects for taxation are not open to judicial scrutiny are collected in the brief for the Collector in No. 837, *Steward Machine Co. v. Davis* pp. 60-63.

But even if it be necessary to find affirmative justification for these exclusions, it appears upon examination that they are reasonable, in the main predicated upon considerations of administrative convenience, and are of the type long familiar in our internal revenue laws. See *Steward* brief, pp. 63-65, for collection of authorities.

The exemption as to agricultural labor [Sec. 811 (b) (1)] is plainly founded upon administrative policy. The difficulties involved in requiring the maintenance of proper records, the fact that farm laborers often receive a substantial portion of their wages in board and lodging the value of which could not readily be determined, the fact that a considerable amount of farm labor is seasonal and migratory—these considerations plainly justified Congress in excluding agricultural employment from Title VIII.

Similar considerations are present in the case of domestic service in a private home. Section 811 (b) (2). In addition, it would often be difficult to determine when the employer-employee relationship exists, as when relatives of various degrees live with the family and assist with household duties. Further the spread of domestic service is so wide and the amount of tax realizable so small that enforcement of the tax might be impossible except at a prohibitive cost. Like factors are dominant in the case of casual labor not in the course of the employer's trade or business. Section 811 (b) (3).

The exemption of service performed by persons who have attained the age of sixty-five [Sec. 811 (b) (4)] is probably accountable for by the fact that most wage earners have passed the peak of their earning power at that age, and are presumably less able to pay a tax. Congress undoubtedly wished to lift the burden under those circumstances.

The exclusion of services performed by seamen on documented vessels was founded upon administrative policy.²⁰ Section 811 (b) (5). Such vessels are generally registered for foreign trade or enrolled or licensed for the coasting or fishing trade (c. 250, 41 Stat. 988, 1000), and the difficulty of determining to what extent services performed on such vessels are within the United States is obvious.

The remaining exemptions [Sec. 811 (b) (6), (7), and (8)] deal with service in the employ of the United States, a state or political subdivision thereof, and certain specified organizations of a charitable character. These are identical with the ones involved in the *Steward* case, and are commented upon in our brief therein at pp. 63-64.

Moreover, all the exemptions from the taxes imposed by Title VIII are given to persons who receive no benefits under Title II. It has long been recognized that in classifying for the purpose of taxation, account may be taken of benefits received. *Norwood v. Baker*, 172 U. S. 269; *Union Transit Co. v. Kentucky*, 199 U. S. 194, 204; *Chicago Burlington & N. R. Co. v. Chicago*, 166 U. S. 226.

Nor is there any violation of due process in the provisions of Section 811 (a) which fix a limit of \$3,000 to the taxable wages of any individual. Aside from the fact that neither respondent nor his corporation may challenge this classification since it obviously cannot injure them (*Roberts & Schaefer Co. v. Emmerson*, 271 U. S. 50, 54-55; *Premier-Pabst Co. v. Grosscup*, 298 U. S. 226), it is clear that Congress has as complete discretion in determining how far it will exercise the taxing power as it has in selecting the subjects of taxation. Blanket exemptions of fixed amounts have appeared in numerous revenue laws and their presence has never been fatal. *Brushaber v. Union Pac. R. R.*, 240 U. S. 1; *Flint v. Stone Tracy Co.*, 220 U. S. 107; *Knowlton v. Moore*, 178 U. S. 41; *Spreckles Sugar Refining Co. v. McClain*, 192 U. S. 397. The operation of an exemption above a specified amount should be no more objectionable.

That Congress may tax part of the employee's income in a specified manner without taxing all of it the same way is settled by *United States v. Hudson*, No. 97, January 11, 1937. There is even more justification here than in the *Hudson*

²⁰ The report of the House Committee on Ways and Means states (H. Rep. No. 615, 74th Cong., 1st Sess., p. 22) :

"The administrative difficulty of following the wages of officers and seamen of crews was regarded as almost insurmountable. For instance, unless this exclusion were made, it would be necessary to keep track of the wages of Chinese coolies working on American ships."

case for treating this income specially. By exempting income in excess of \$3,000, double taxation is, in general, avoided. Through the operation of the \$2,500 credits as well as additional credits for dependents and earned income (see, *e. g.*, Sec. 25 of the Revenue Acts of 1934 and 1936), income under \$3,000 is usually exempt under the general income tax law. While it is true that there may be some overlapping or some gaps at the dividing line, the avoidance of double taxation is achieved as a practical matter by exempting wages over \$3,000 in Title VIII. *Henenford v. Silas Mason Co.*, No. 418, March 29, 1937; *Colgate v. Harvey*, 296 U. S. 404, 419-422. And the existence of slight inequalities at the dividing line is surely not constitutionally objectionable. Cf. *Magoun v. Illinois Trust & Savings Bank*, 170 U. S. 283; *Salomon v. State Tax Commission*, 278 U. S. 484.

Moreover, there is no objection to the \$3,000 limit in measuring the excise upon employers. Plainly Congress should have fixed a flat rate of \$30 per employee upon the exercise of the taxable privilege. Cf. *Sonzinsky v. United States*, No. 614, March 29, 1937; *Hylton v. United States*, 3 Dall. 171; *State Board v. Young's Market Co.*, 299 U. S. 59. Such tax would have been mathematically equal to the maximum tax now imposed by Title VIII for the year 1937 (i. e., 1% of \$3,000). There is, therefore, nothing arbitrary in lowering the burden where the wages are less. Cf. *Clark v. Titusville*, 184 U. S. 329; *Baltic Mining Co. v. Massachusetts*, 231 U. S. 68, 81;²⁷ *Metropolis Theatre Co. v. Chicago*, 228 U. S. 61.

CONCLUSION

Wherefore it is respectfully submitted that the taxes imposed by Title VIII are valid in every respect, and that the judgment of the Circuit Court of Appeals should be reversed and the cause remanded with instructions to enter judgment in favor of petitioners.

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Social Security Board.

MAY 1937.

IX. HELVERING v. DAVIS

HELVERING, COMMISSIONER OF INTERNAL REVENUE, ET AL. v. DAVIS

CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE FIRST CIRCUIT

No. 910. Argued May 5, 1937.—Decided May 24, 1937

1. The Court abstains from dismissing, *sua sponte*, as not properly within equity jurisdiction, a bill by a shareholder to restrain his corporation from making the tax payments and the deductions from wages required by Title VIII of the Social Security Act of August 14, 1935, the bill alleging that the exactions

²⁷The *Baltic Mining Co.* case has been overruled on another (*Alpha Portland Cement Co. v. Massachusetts*, 268 U. S. 203, 218), but its authority on this point has remained unimpaired.

are void and that compliance will subject the corporation and its shareholders to irreparable damage. P. 639.

The corporation acquiesced. The Collector and Commissioner of Internal Revenue intervened in the court below, defended on the merits, brought the case to this Court by certiorari, and here expressly waived a defense under R. S. § 3224 and any objection upon the ground of adequate legal remedy, and urged that the validity of the taxes be determined.

2. The scheme of "Federal Old-Age Benefits" set up by Title II of the Social Security Act does not contravene the limitations of the Tenth Amendment. P. 640.
3. Congress may spend money in aid of the "general welfare." P. 640.
4. In drawing the line between what is "general" welfare, and what is particular, the determination of Congress must be respected by the courts, unless it be plainly arbitrary. P. 640.
5. The concept of "general welfare" is not static but adapts itself to the crises and necessities of the times. P. 641.
6. The problem of security for the aged, like the general problem of unemployment, is national as well as local. Cf. *Steward Machine Co. v. Davis*, ante p. 548. P. 644.

There is ground to believe that laws and resources of the separate States unaided, can not deal with this problem effectively. State governments are reluctant to place such heavy burdens upon their residents lest they incur economic disadvantages as compared with neighbors or competitors; and a system of old age pensions established in one State encourages immigration of needy persons from other States which have rejected such systems. P. 644.

7. When money is spent to promote the general welfare, the concept of welfare or the opposite is shaped by Congress, not the States. P. 645.
 8. Title II of the Social Security Act provides for "Federal Old-Age Benefits" for persons who have attained the age of 65. It creates an "Old-Age Reserve Account" in the Treasury and authorizes future appropriations to provide for the required old-age payments, but in itself neither appropriates money nor brings any money into the Treasury. Title VIII imposes an "excise" tax on employers, to be paid "with respect to having individuals in their employ," measured on the wages, and an "income tax on employees," measured on their wages, to be collected by their employers by deduction from wages. These taxes are not applicable to certain kinds of employment, including agricultural labor, domestic service, service for the national or state governments, and service performed by persons who have attained the age of 65 years. *Held*:
 - (1) Title II being valid, there is no occasion to inquire whether Title VIII must fall if Title II were void. P. 645.
 - (2) The tax upon employers is a valid excise or duty upon the relation of employment. *Steward Machine Co. v. Davis*, ante p. 548. P. 645.
 - (3) The tax is not invalid as a result of its exemptions. *Steward Machine Co. v. Davis*, ante, p. 548. P. 646.
- 89 F. (2d) 393, reversed.

CERTIORARI, post, p. 674, to review the reversal of a decree of the District Court denying an injunction and dismissing the bill in a suit by Davis, a shareholder of the Edison Electric Illuminating Company of Boston, to enjoin the corporation from complying with tax requirements of Title VIII of the Social Security Act.

Assistant Attorney General Jackson and Mr. Charles E. Wyzanski, Jr., with whom Attorney General Cummings, Solicitor General Reed, and Messrs. Sewall Key, A. H. Feller, Arnold Raum, Thomas H. Eliot, Alanson Willcox, and Robert P. Bingham, were on the brief, for petitioners.

Since the employer is merely a withholding agent with respect to the employee tax, neither corporation nor stockholder may ask for relief from it.

Both the employee tax (a special income tax, *United States v. Hudson*, 299 U. S. 498) and the employer tax (an excise) comply with the requirement of uniformity.

These are true taxes, their purpose being simply to raise revenue. No compliance with any scheme of federal regulation is involved. The proceeds are paid unrestricted into the Treasury as internal revenue collections, available for the general support of the Government. Although Congress may have anticipated that over a period of years the taxes would roughly offset the drain upon the

Treasury to be occasioned by the wholly independent appropriations authorized under Title II, such rough budgetary equivalence is not sufficient to deprive Title VIII of its quality as a true taxing measure.

The Circuit Court of Appeals erred in undertaking to pass upon the validity of Title II. *Frothingham v. Mellon*, 262 U. S. 447. A taxpayer has no standing to question the propriety of any expenditures from the federal Treasury. That rule has been relaxed only where the tax avails are earmarked for a specific purpose.

The employee tax is a withholding at the source, the employer being a collecting agent or stakeholder. The withholding provisions themselves are not challenged, nor could they be successfully attacked. *Brushaber v. Union Pacific R. Co.*, 240 U. S. 1, 21; *Pierce Oil Corp. v. Hopkins*, 264 U. S. 137; *Bell's Gap R. Co. v. Pennsylvania*, 134 U. S. 232, 239. The employer, as stakeholder, has no *locus standi* to challenge this tax. *United States v. American Exchange Co.*, 43 F. (2d) 829; *United States v. First Capital Bank*, 98 F. (2d) 116; *Miami Valley Fruit Co. v. United States*, 45 F. (2d) 303; *United States v. Erb*, 8 F. Supp. 947.

The corporation can complain only of the infringement of its own constitutional immunity. *Virginian Ry. Co. v. System Federation*, 300 U. S. 515. No employee is complaining. *Jeffrey Mfg. Co. v. Blagg*, 235 U. S. 571, 576. See *Erie R. Co. v. Williams*, 233 U. S. 685, 697; *Rail Coal Co. v. Ohio Industrial Comm'n*, 236 U. S. 338, 349; *Hawkins v. Bleakly*, 243 U. S. 210, 214. The standing of the stockholder cannot be any better than that of his corporation.

The power to appropriate for the general welfare granted by Art. I, § 8, cl. 1, is not limited by or to the other enumerated powers of Congress. *United States v. Butler*, 297 U. S. 1. Whether any particular expenditure is for the general welfare is a matter completely within the determination of Congress. *United States v. Teller*, 107 U. S. 64, 68. The decision of Congress is not reviewable by the courts if by any "reasonable possibility it is for the general welfare." *United States v. Butler*, 297 U. S. 1, 65.

The expenditures in the present case are clearly well within the limits of the power of Congress. The number of aged persons in this country is rapidly increasing; workers in urban industrialized civilization usually arrive at old age without adequate means for self-support, as is demonstrated not only by their earning powers during their working lifetime but by various studies which have been made of the extent of dependency of people over 65 years of age. Those who are able to call upon their children for support only aggravate the evil by depriving the younger members of the family of the resources which they need. Voluntary industrial pension plans cover but a few. Private charity is inadequate to cope with the problem. Even state old age benefit laws present grave administrative and financial problems.

Therefore, the expenditures contemplated by Title II are for the general welfare of the United States. Moreover, the form of the expenditures is soundly designed to promote general welfare. The statute excludes employed aged persons, thereby providing a simple and easily administered means test which is legally sufficient. *Mountain Timber Co. v. Washington*, 243 U. S. 219, 230. The payments themselves are graduated both by wages and length of employment, so as to provide an incentive to work and at the same time roughly to relate benefits to past standards of living. The incidental lump sum payments under §§ 203 and 204 accord with the general purpose of the plan and also serve to simplify its administration. The exclusions from benefits are based upon sound administrative and economic reasons.

Since Titles II and VIII severally constitute valid exercises of Congressional power, they cannot be invalid when considered jointly. If it be said that the avails of the taxes are earmarked, that fact does not deprive the taxes of their quality as true taxes, even though the proceeds be earmarked for the payment of benefits to a particular group. If the payment of benefits under Title II is an expenditure for the general welfare, then a levy for the purpose of providing funds for such expenditure must be a tax within the meaning of the Constitution. To determine that the expenditures are for the general welfare is to determine that they are for the benefit of the taxpayers as well as for the benefit of the direct recipients of the expenditures. A tax does not cease to be one for the general welfare because the immediate application of the proceeds is to one group of the population. *Clark v. Poor*, 274 U. S. 554; *Gillum v. Johnson*, 62 P. (2d) 1037, 1044; *Beeland Wholesale Grocery Co. v. Kaufman* (Ala.), 174 So. 516. "The Constitutional power to levy taxes does not depend upon the enjoyment by the taxpayer of any special benefit from the use of the proceeds raised by taxation." *Nashville, C. & St. L. Ry. v. Wallace*, 288 U. S. 249, 268; *Carley & Hamilton v. Snook*, 281 U. S. 66; *Knights v. Jackson*, 260 U. S. 12, 15.

Titles II and VIII do not, when considered together, constitute a regulatory scheme. The Act does not require retirement from employment and has no tendency to induce it. It does not constitute a plan for compulsory insurance within the accepted meaning of the term "insurance." (Cf. *Lynch v. United States*, 292 U. S. 571, 576-577. Whether the plan of the Act may properly be designated as old-age insurance is immaterial since it involves only a valid exercise of the taxing power and valid expenditures for the general welfare without regulatory incidents. Cf. *McCulloch v. Maryland*, 4 Wheat. 315. There is no enforced addition to wages, and consequently the Act does not constitute a regulation of the wage relationship. The Tenth Amendment has no application, since Congress has only exercised its granted powers. *Ashwander v. Tennessee Valley Authority*, 297 U. S. 288, 330. The tax and expenditures are not forbidden to the Federal Government merely because the States themselves might legitimately lay similar taxes and make similar expenditures. *Hoke v. United States*, 227 U. S. 308, 322. *United States v. Butler*, 297 U. S. 1, and *Railroad Retirement Board v. Alton R. Co.*, 295 U. S. 330, distinguished.

The taxes do not violate the Fifth Amendment. Not only are the various selections of employments for taxation well within the power of Congress (*Sonzinsky v. United States*, 300 U. S. 506), but they are of the type long sanctioned.

The provision limiting the amount of taxable wages to \$3,000 is likewise valid. Congress has as full discretion in determining how far it will exercise the taxing power as it has in selecting the subjects for taxation. This provision will be found justified by precedent as well as by its reasonable tendency to avoid double taxation.

Title VIII is a valid exercise of the power "To lay and collect taxes, duties, imposts and excises, to pay the debts and provide for the common defence and general welfare of the United States." Const., Art. I, § 8. The authority so conferred "is exhaustive and embraces every conceivable power of taxation." *Brushaber v. Union Pac. R. Co.*, 240 U. S. 1, 12.

Mr. Edward F. McClennen, with whom Mr. Jacob J. Kaplan was on the brief, for respondent.

1. The title of an Act and its whole content may be examined to see that Congress intended the imposition to be for a particular purpose, and not merely to produce general revenue for the United States. *Hill v. Wallace*, 259 U. S. 44; *Child Labor Tax Case*, 259 U. S. 20; *Carter v. Carter Coal Co.*, 298 U. S. 238 (semble); *United States v. Constantine*, 296 U. S. 287, 294 (semble); *Grosjean v. American Press Co.*, 297 U. S. 233; *Trusler v. Crooks*, 269 U. S. 475; and *United States v. Butler*, 297 U. S. 1.

2. The imposition is not an "excise" within the meaning of that word as used in the only clause of the Constitution which empowers the Congress to levy taxes. See *Davis v. Boston & Maine R. R.*, 89 F. (2d) 368.

"Excise," in England and in the Colonies, for at least one hundred and forty years before it was used in the Constitution, meant an inland levy on selected tangible property, or upon the owners of it, because of the activity in which the property was moving, as in the manufacture, in intermediate sale, or in the ultimate sale commonly amounting to consumption. The antithesis was the direct tax upon property in general, certainly land, when taxed on a rate fixed by its static appraised capital value, possibly when measured by its annual unwrought return in rent, income, or produces, and, debatably, upon personal property so appraised or judged. Both the direct tax and the excise were pre-eminently property taxes,—one regardless of its activity or inactivity, and the other taking that activity into consideration. In 1766 Dr. Johnson defined "excise" as "a hateful tax levied upon commodities, and adjudged not by the common judges of property." Dict. (3d ed., 1766). He defined "commodity" as "interest, advantage, profit, convenience of time or place, wares, merchandise." *Id.* "Commodity" suggests, as the principal thought, merchandise. In 1776 Adam Smith in his "The Wealth of Nations" said, "The duties of excise are imposed chiefly upon goods of home produce destined for home consumption. They are imposed only upon a few sorts of goods of the most general use." In 1789 the Massachusetts constitution indicated direct taxes to be the normal source of revenue, but gave the legislature authority to impose "reasonable duties and excises, upon any produce, goods, wares, merchandise, and commodities, whatsoever." In 1788 the Constitutional Convention of New York urged an amendment to the Constitution "That the Congress do not impose any excise on any article (ardent spirits excepted) of the growth, production, or manufacture of the United States, or any of them." 1 Elliot's Debates 72; Luther Mar-

tain said "By the power to lay excises,—a power very odious in its nature, since it authorizes officers to go into your houses, your kitchens, your cellars, and to examine into your private concerns,—the Congress may impose duties on every article of use or consumption, on the food that we eat, on the liquors that we drink, on the clothes that we wear, the glass which enlightens our houses, or the hearing necessary for our warmth and comfort." Cf. Chancellor Livingston in the New York Convention, 2 *id.* 341; Nicholas in the Virginia Convention, 3 *id.* 243; also 5 *id.* 40; Hamilton, *Federalist*, No. 21, p. 182; Ellsworth, Connecticut Convention, 2 Elliot 192; Writings of Gallatin, p. 73.

See also: Hist. of England, 5 Hume, ed. 1861, p. 269; Clarendon, the Hist. of Rebellion in England, Vol. II, p. 453; 1 Blackstone Comm. 308; and Ency. Brit. Third ed. 1797; British Excise Tax, March 28, 1643; January, 1644. The tax laid by the Revenue Act of 1777 (17, Geo. III, c. 39) of one shilling per annum for every male servant of the kinds described was a luxury tax like the window tax.

Excises in New York before 1788: See "The Colonial Laws of New York from the Year 1644 to the Revolution, Transmitted to the Legislature by the Commissioners of Statutory Revision, Pursuant to Chapter 125 of the Laws of 1891," Vol. I, pp. 248, 789; Vol. IV, *id.* 1, 105; Laws of New York, 1775 to 1788, Vol. I, pp. 109, 660. In Pennsylvania: IX Stat. at L. 1776-1799, p. 55. In Massachusetts: 1646, Plymouth Colony Law, 1836, p. 85; June 24, 1692, Acts and Resolves of the Province of Massachusetts Bay, Vol. 1, c. 5, p. 32; I, *Id.* 57, 272, 391, 475, 527, 662, 738; II, *Id.* 203, 849; III, *Id.* 495, 568, 750; IV, *Id.* 219; Acts of Nov. 1, 1781, c. 17, I. Laws of Mass. 60; 1782, 1783; I, *Id.* 62, 78, 85; Laws and Resolves of 1782, c. 33, p. 92.

Historically, an excise was in character an inland duty or impost on a tangible commodity in manufacture or in sale either in the course of trade or for consumption. It was not "cut out" of the activity, but out of the goods.

It is inconceivable that the people of the thirteen States could have understood that the word "excise" included an imposition on the state of being of exercising the universal natural right to employ, for wages, other men who consented to that employment, in a manner not injurious to the public good.

Supporters of this tax have urged that it is a tax upon privilege. There is no privilege. The state of being on which the imposition is made is not derived from government or from public authority in any manner. Privilege contrasts with common natural opportunity. Contrast the privilege to do business without liability for debts, as in corporate form. Any dictionary of the common meanings will show that "privilege" as used in this context means something not of common right.

Undoubtedly properties of modern times—as, for example, automobiles—never thought of in 1788, may come within the meaning of the word "excise" in 1788. But, if the state of being, of having individuals in a man's employ,—a thing of character which existed in 1788,—did not then come within the meaning of the word, it is not there now.

An attempted Act may be clearly without the powers of the Congress, and a particular litigant nevertheless may have no right to invoke the judgment of this Court. *Massachusetts v. Mellon*, 262 U. S. 447; *Florida v. Mellon*, 273 U. S. 12. Consequently, the fact that the validity of appropriation of the money of the United States in questionable ways has not been questioned before this Court, carries no implication that the appropriations were lawful, or approved by the people.

It is only in the last twenty years that inland taxes of the United States have become so burdensome that it has been worth the extensive effort of many people to prevent unlawful appropriations.

A person in terms obliged by an attempted invalid Act to pay money to go into the Treasury of the United States, has a right to a decision. *United States v. Butler*, 297 U. S. 1.

An imposition on a particular class of tangible property, in manufacture, use, gift, bequest, or sale, may be sustained as an excise if it meets the other constitutional requirements, including that the end is to provide revenue for the general welfare of the Federal Government and that the selection is not capricious or violative of the rule of uniformity. *Magnano v. Hamilton*, 292 U. S. 40; *Bromley v. McCaughn*, 280 U. S. 124; *N. Y. Trust Co. v. Eisner*, 256 U. S. 345; *Billings v. United States*, 232 U. S. 261; *McCray v. United States*, 195 U. S. 27; *Thomas v. United States*, 192 U. S. 363; *Cornell v. Coyne*, 192 U. S. 418; *Spreckels Sugar Co. v. McClain*, 192 U. S. 397; *Patton v. Brady*, 184 U. S. 608; *Treat v. White*, 181 U. S. 264; *Knowlton v. Moore*, 178 U. S. 41, 84; *Nicol v. Ames*, 173 U. S.

609; *Springer v. United States*, 102 U. S. 586; *Railroad Co. v. Collector*, 100 U. S. 595; *Scholey v. Rew*, 23 Wall. 331; *Veazie Bank v. Fenno*, 8 Wall. 533; *Pacific Ins. Co. v. Soule*, 7 Wall. 433; *License Cases*, 5 Wall. 462; *Hylton v. United States*, 3 Dall. 171. Important documents, and paper, particularly commercial paper, are tangible and valuable because of that fact. *Patton v. Brady*, 184 U. S. 608, 617; *Cook v. Pennsylvania*, 97 U. S. 566. In at least one case this Court has held that a franchise is a sufficiently palpable kind of property to permit an excise in respect of it, *Flint v. Stone Tracy Co.*, 220 U. S. 107, 155, 162; but it has never held that the natural, harmless, state of being, or natural, harmless conduct privileged or unprivileged, is subject to excise.

See: Opinions of the Justices, 282 Mass. 219; 266 Mass. 592, 595; 196 Mass. 624.

Property may not be taken by government from one for another, even for public advantage or welfare, without just compensation, *Louisville Bank v. Radford*, 295 U. S. 555, 601, 602; *United States v. Butler*, 297 U. S. 1; *Railroad Retirement Board v. Alton R. Co.*, 295 U. S. 330; and it makes no difference that it is done under the guise of a tax or is the product of a tax. *Loan Association v. Topcka*, 20 Wall. 655; *Calder v. Bull*, 3 Dall. 386; *Miles Planting Co. v. Carlisle*, 5 App. D. C. 138, 146.

Even if a tax is levied expressly for the purpose of obtaining general revenue, when it appears, "in the light of its history and of its present setting," that it is for a purpose which the Constitution does not permit the lawmaking body to accomplish, the tax is invalid. *Grosjean v. American Press Co., Inc.*, 297 U. S. 233, 250. Distinguishing *Spreckels Sugar Ref. Co. v. McClain*, 192 U. S. 397.

3. In testing the validity of the levy attempted in §§ 804 and 802, an unchanging decision must be made for all purposes, as to whether the levy is for general revenue only or is for old age benefits such as are described in Title II. The levy should not be deemed to be for such benefits at one stage of argument in order to meet the charge of capriciousness, and for general revenue at another stage in order to meet the charge of absence of federal purpose.

4. Whether for general revenue or not, the attempted levy is so capricious and so lacking in uniformity as not to be in character a tax. If the purpose is general revenue, there is no basis in reason for selecting certain faultless employers to bear the entire burden and thereby relieve wealth generally from taxation to furnish the revenue. If the purpose is old-age benefits, there is no more reason for shifting the burden of a tax on wealth to the shoulders of possibly poor employers who are not the cause of the old age. There is no attempt to cover all in the same class. If men over sixty-five years of age ought to have an annuity or old-age benefit, it should be on account of that fact, not because of the type of employment in which they have been engaged, and if employers ought to pay an excise for the state of being of having employees, they ought to pay it when they have that state of being. It is the known fact that imposition upon non-agricultural labor is equivalent to confining the imposition to certain States to the approximately complete exclusion of other States. It is capricious to deny the "over-sixty-five" benefits to farm laborers, and to relieve their employers from an imposition placed on other employers.

Only 56%, or less, of the gainful workers in the United States are potentially to be benefited. The employers of only this 56%, (or less), are subjected to the imposition.

The employers of the 56% bear not only the burden of caring by so much for the aged among the 56%, but also the burden of their share of taxes to meet the public expense for poor relief and assistance to the remaining 44%, and of the unprovided for balance of the 56%.

Senate Report No. 628, (74th Congress, 1st Sess. 1935) indicates that when the impositions under Title VIII and IX are in full sway, so that 9% on the pay rolls must be paid, the imposition is equivalent to a general sales tax of 3%. As the tax is on employers in trade as well as in industry, (except in the case of imported merchandise sold), they are taxed twice. The employers in the production and trade in domestic industry in this way pay two taxes inevitably; and when the products pass through both wholesale and retail trade three taxes. What passes from wholesale trade into the hands of the manufacturers, as the raw material of those manufacturers calls for another payment. It is beyond the possibility of accurate mathematical statement. In many cases the levy cannot be passed on without the destruction of the trade; and if not passed on, the employer inevitably meets financial ruin when subjected to such a huge tax.

If gainful workers ought to have an annuity after age sixty-five, so should all other persons. There is no reason for favoring those who have been able to get and perform work, to the exclusion of those who have not. The number of workers potentially to benefit and preferentially treated is less than 22% of the population.

Capricious selection of class of property, class of persons, or rate gradation, converts an attempted excise into a nonuniform confiscation, without tax character. *Grosjean v. American Press Co.*, 297 U. S. 233, 251; *Colgate v. Hurvey*, 296 U. S. 404, 422, 424; *Concordia Fire Ins. Co. v. Illinois*, 292 U. S. 535; *Stebbins v. Riley*, 268 U. S. 137; *Louisville Gas Co. v. Coleman*, 277 U. S. 32; *Schlesinger v. Wisconsin*, 270 U. S. 230; *Bromley v. McCaughn*, 280 U. S. 124, 139; *Mayflower Farms v. Ten Eyck*, 297 U. S. 266, 272 (semble) of a regulation; *In re Opinion of the Justices*, 85 N. H. 562, (semble). Cf. *Brushaber v. Union Pacific R. Co.*, 240 U. S. 1, 24.

5. To provide old age benefits such as are described in Title II is not a purpose for which the Congress has power to tax. Such a purpose is not for the common defense, or to pay the debts of, or to provide for the general welfare of, the Government.

Apart from taxes to pay the debts and provide for the common defense of the Government, no tax by Congress is authorized unless it is to provide for the general welfare of the Government of the United States. The limits upon the taxing power are not set by "welfare" only, but by the limits upon the kind of welfare for which the tax may be levied. It must be the limited kind of welfare which is "general," and it must be the limited kind of welfare which is "of the United States." In this limitation, "of the United States" evidently is used in the sense of Government of the United States. It is not to be supposed that a constitution would grant to Congress a power to tax to provide revenue for the general welfare of the territory of the United States when that Congress had been given no power to legislate for the general welfare of that territory. The words "general" and "of the United States" are words of restriction upon the kind of welfare to provide revenue for which Congress may levy a tax. They stand opposite to the restrictions of "State" or "local" in defining the welfare for which a State may levy a tax.

As far as it may be done by legislation, the control of the relation between employer and employee, the rate of wages, the withholding of wages to build reserves, the insurance against accidents, the making of reserves for the employee when he no longer, or not for a time, can earn wages, is for the legislature of the State.

The support of men and women who have come to be sixty-five years old in the respective States, or who cannot get employment, is no more for the general welfare of the Government of the United States than is the keeping of the citizenry of the United States from becoming drug addicts, and thereby likely to be unable to earn a living or to fight for the United States, or to vote intelligently for a President or Senators and Representatives. Cf. *Linder v. United States*, 268 U. S. 5, 17; *United States v. Doremus*, 249 U. S. 86, 95; *United States v. Jim Fucey Moy*, 241 U. S. 394, 401. Local commercial activities and employment relations completed wholly within a State, howsoever common they may be in every State, are not a part of the general welfare of the Government of the United States. *Schechter Poultry Corp. v. United States*, 295 U. S. 495; *United States v. Butler*, 297 U. S. 1; *Railroad Retirement Board v. Alton R. Co.*, 295 U. S. 330 (*a fortiori*); *Child Labor Tax Case*, 259 U. S. 20; *Hill v. Wallace*, 259 U. S. 44; *Hammer v. Dagenhart*, 247 U. S. 251. Cf. remarks of Hughes, C. J., in *Carter v. Carter Coal Co.*, 298 U. S. 238, 317.

The State where this local employment occurs may deem it wiser to regulate the relation in a different way, to provide a smaller annuity with a smaller compulsory contribution, or none at all. The same thing cannot be done by Congress and by the state legislature. If it is a subject for legislative regulation at all, the Tenth Amendment says that it is to be regulated by the state legislature, and not by Congress. Cf. *Chamberlin v. Andrews*, 299 U. S. 515; *Collector v. Day*, 11 Wall. 113.

Impositions for old-age benefits do not differ in this respect from those for unemployment benefits. The particular limit to "general welfare," as to which Hamilton and Madison differed, and Monroe vacillated, is not involved. None of them suggested that any such regulations of employment obligations and relations within a State come within this phrase. None of them, it seems,

would have supported a power in Congress to compel employers and employees in purely local employment to contribute to a fund for old-age annuities for others. Cf. veto messages of Presidents Jackson, May 27, 1830, 2 Richardson, 483, 492, 639; Buchanan, February 24, 1859, 5 *Id.* 547; Cleveland in 1887, 8 *Id.* 557.

6. In fact and in law, in the sections 804 and 802 under consideration, this is not a taxing statute, but an unconstitutional attempt to regulate the wage relation within the several States. *West Coast Hotel Co. v. Parrish*, 300 U. S. 379; *Attorney-General for Canada v. Attorney General for Ontario*, [1937] A. C. 355, Affirming [1936] Can. S. C. R. 427.

MR. JUSTICE CARDOZO delivered the opinion of the Court.

The Social Security Act (Act of August 14, 1935, c. 531, 49 Stat. 620, 42 U. S. C., c. 7, (Supp.)) is challenged once again.

In *Steward Machine Co. v. Davis*, decided this day, *ante*, p. 548, we have upheld the validity of Title IX of the act, imposing an excise upon employers of eight or more. In this case Titles VIII and II are the subject of attack. Title VIII lays another excise upon employers in addition to the one imposed by Title IX (though with different exemptions). It lays a special income tax upon employees to be deducted from their wages and paid by the employers. Title II provides for the payment of Old Age Benefits, and supplies the motive and occasion, in the view of the assailants of the statute, for the levy of the taxes imposed by Title VIII. The plan of the two titles will now be summarized more fully.

Title VIII, as we have said, lays two different types of tax, an "income tax on employees," and "an excise tax on employers." The income tax on employees is measured by wages paid during the calendar year. § 801. The excise tax on the employer is to be paid "with respect to having individuals in his employ," and, like the tax on employees, is measured by wages. § 804. Neither tax is applicable to certain types of employment, such as agricultural labor, domestic service, service for the national or state governments, and service performed by persons who have attained the age of 65 years. § 811 (b). The two taxes are at the same rate. §§ 801, 804. For the years 1937 to 1939, inclusive, the rate for each tax is fixed at one per cent. Thereafter the rate increases $\frac{1}{2}$ of 1 per cent every three years, until after December 31, 1948, the rate for each tax reaches 3 per cent. *Ibid.* In the computation of wages all remuneration is to be included except so much as is in excess of \$3,000 during the calendar year affected. § 811 (a). The income tax on employees is to be collected by the employer, who is to deduct the amount from the wages "as and when paid." § 802 (a). He is indemnified against claims and demands of any person by reason of such payment. *Ibid.* The proceeds of both taxes are to be paid into the Treasury like internal-revenue taxes generally, and are not earmarked in any way. § 807 (a). There are penalties for non-payment. § 807 (a).

Title II has the caption "Federal Old-Age Benefits." The benefits are of two types, first, monthly pensions, and second, lump sum payments, the payments of the second class being relatively few and unimportant.

The first section of this title creates an account in the United States Treasury to be known as the "Old-Age Reserve Account." § 201. No present appropriation, however, is made to that account. All that the statute does is to authorize appropriations annually thereafter, beginning with the fiscal year which ends June 30, 1937. How large they shall be is not known in advance. The "amount sufficient as an annual premium" to provide for the required payments is "to be determined on a reserve basis in accordance with accepted actuarial principles, and based upon such tables of mortality as the Secretary of the Treasury shall from time to time adopt, and upon an interest rate of 3 per centum per annum compounded annually." § 201 (a). Not a dollar goes into the Account by force of the challenged act alone, unaided by acts to follow.

Section 202 and later sections prescribe the form of benefits. The principal type is a monthly pension payable to a person after he has attained the age of 65. This benefit is available only to one who has worked for at least one day in each of at least five separate years since December 31, 1936, who has earned at least \$2,000 since that date, and who is not then receiving wages "with respect to regular employment." §§ 202 (a), (d), 210 (c). The benefits are not to begin before January 1, 1942. § 202 (a). In no event are they to exceed \$85 a month. § 202 (b). They are to be measured (subject to that limit) by a percentage of the wages, the percentage decreasing at stated intervals as the wages become higher. § 202 (a). In addition to the monthly benefits, provision is made in certain contingencies for "lump sum payments" of secondary

importance. A summary by the Government of the four situations calling for such payments is printed in the margin.¹

This suit is brought by a shareholder of the Edison Electric Illuminating Company of Boston, a Massachusetts corporation, to restrain the corporation from making the payments and deductions called for by the act, which is stated to be void under the Constitution of the United States. The bill tells us that the corporation has decided to obey the statute, that it has reached this decision in the face of the complainant's protests, and that it will make the payments and deductions unless restrained by a decree. The expected consequences are indicated substantially as follows: The deductions from the wages of the employees will produce unrest among them, and will be followed, it is predicted, by demands that wages be increased. If the exactions shall ultimately be held void, the company will have parted with moneys which as a practical matter it will be impossible to recover. Nothing is said in the bill about the promise of indemnity. The prediction is made also that serious consequences will ensue if there is a submission to the excise. The corporation and its shareholders will suffer irreparable loss, and many thousands of dollars will be subtracted from the value of the shares. The prayer is for an injunction and for a declaration that the act is void.

The corporation appeared and answered without raising any issue of fact. Later the United States Commissioner of Internal Revenue and the United States Collector for the District of Massachusetts, petitioners in this court, were allowed to intervene. They moved to strike so much of the bill as has relation to the tax on employees, taking the ground that the employer, not being subject to tax under those provisions, may not challenge their validity, and that the complainant shareholder, whose rights are no greater than those of his corporation, has even less standing to be heard on such a question. The intervening defendants also filed an answer which restated the point raised in the motion to strike, and maintained the validity of Title VIII in all its parts. The District Court held that the tax upon employees was not properly at issue, and that the tax upon employers was constitutional. It thereupon denied the prayer for an injunction, and dismissed the bill. On appeal to the Circuit Court of Appeals for the First Circuit, the decree was reversed, one judge dissenting. 89 F. (2d) 393. The court held that Title II was void as an invasion of powers reserved by the Tenth Amendment to the states or to the people, and that Title II in collapsing carried Title VIII along with it. As an additional reason for invalidating the tax upon employers, the court held that it was not an excise as excises were understood when the Constitution was adopted. Cf. *Davis v. Boston & Maine R. Co.*, 89 F. (2d) 368, decided the same day.

A petition for certiorari followed. It was filed by the intervening defendants, the Commissioner and the Collector, and brought two questions, and two only, to our notice. We were asked to determine: (1) "whether the tax imposed upon employers by § 804 of the Social Security Act is within the power of Congress under the Constitution," and (2) "whether the validity of the tax imposed upon employees by § 801 of the Social Security Act is properly in issue in this case, and if it is, whether that tax is within the power of Congress under the Constitution." The defendant corporation gave notice to the Clerk that it joined in the petition, but it has taken no part in any subsequent proceedings. A writ of certiorari issued.

First. Questions as to the remedy invoked by the complainant confront us at the outset.

¹ (1) If through an administrative error or delay a person who is receiving a monthly pension dies before he receives the correct amount, the amount which should have been paid to him is paid in a lump sum to his estate [§ 203 (c)].

(2) If a person who has earned wages in each of at least five separate years since December 31, 1936, and who has earned in that period more than \$2,000 dies *after* attaining the age of 65, but before he has received in monthly pensions an amount equal to 3½ percent of the "wages" paid to him between January 1, 1937, and the time he reaches 65, then there is paid in a lump sum to his estate the difference between said 3½ percent and the total amount paid to him during his life as monthly pensions [§ 103 (b)].

(3) If a person who has earned wages since December 31, 1936, dies *before* attaining the age of 65, then there is paid to his estate 3½ percent of the "wages" paid to him between January 1, 1937, and his death [§ 203 (a)].

(4) If a person has, since December 31, 1936, earned wages in employment covered by Title II, but has attained the age of 65 either without working for at least one day in each of 5 separate years since 1936, or without earning at least \$2,000 between January 1, 1937, and the time he attains 65, then there is paid to him [or to his estate, § 204 (b)], a lump sum equal to 3½ percent of the "wages" paid to him between January 1, 1937, and the time he attained 65 [§ 204 (a)].

Was the conduct of the company in resolving to pay the taxes a legitimate exercise of the discretion of the directors? Has petitioner a standing to challenge that resolve in the absence of an adequate showing of irreparable injury? Does the acquiescence of the company in the equitable remedy affect the answer to those questions? Though power may still be ours to take such objections for ourselves, is acquiescence effective to rid us of the duty? Is duty modified still further by the attitude of the Government, its waiver of a defense under § 3224 of the Revised Statutes, its waiver of a defense that the legal remedy is adequate, its earnest request that we determine whether the law shall stand or fall? The writer of this opinion believes that the remedy is ill conceived, that in a controversy such as this a court must refuse to give equitable relief when a cause of action in equity is neither pleaded nor proved, and that the suit for an injunction should be dismissed upon that ground. He thinks this course should be followed in adherence to the general rule that constitutional questions are not to be determined in the absence of strict necessity. In that view he is supported by Mr. JUSTICE BRANDEIS, Mr. JUSTICE STONE, and Mr. JUSTICE ROBERTS. However, a majority of the court have reached a different conclusion. They find in this case extraordinary features making it fitting in their judgment to determine whether the benefits and the taxes are valid or invalid. They distinguish *Norman v. Consolidated Gas Co.*, 89 F. (2d) 619, recently decided by the Court of Appeals for the Second Circuit, on the ground that in that case, the remedy was challenged by the company and the Government at every stage of the proceeding, thus withdrawing from the court any marginal discretion. The ruling of the majority removes from the case the preliminary objection as to the nature of the remedy which we took of our own motion at the beginning of the argument. Under the compulsion of that ruling, the merits are now here.

Second. The scheme of benefits created by the provisions of Title II is not in contravention of the limitations of the Tenth Amendment.

Congress may spend money in aid of the "general welfare." Constitution, Art. I, section 8; *United States v. Butler*, 297 U. S. 1, 65; *Steward Machine Co. v. Davis*, *supra*. There have been great statesmen in our history who have stood for other views. We will not resurrect the contest. It is now settled by decision. *United States v. Butler*, *supra*. The conception of the spending power advocated by Hamilton and strongly reinforced by Story has prevailed over that of Madison, which has not been lacking in adherents. Yet difficulties are left when the power is conceded. The line must still be drawn between one welfare and another, between particular and general. Where this shall be placed cannot be known through a formula in advance of the event. There is a middle ground or certainly a penumbra in which discretion is at large. The discretion, however, is not confided to the courts. The discretion belongs to Congress, unless the choice is clearly wrong, a display of arbitrary power, not an exercise of judgment. This is now familiar law. "When such a contention comes here we naturally require a showing that by no reasonable possibility can the challenged legislation fall within the wide range of discretion permitted to the Congress." *United States v. Butler*, *supra*, p. 67. Cf. *Cincinnati Soap Co. v. United States*, *ante*, p. 308; *United States v. Realty Co.*, 163 U. S. 427, 440; *Head Money Cases*, 112 U. S. 580, 595. Nor is the concept of the general welfare static. Needs that were narrow or parochial a century ago may be interwoven in our day with the well-being of the Nation. What is critical or urgent changes with the times.

The purge of nation-wide calamity that began in 1929 has taught us many lessons. Not the least is the solidarity of interests that may once have seemed to be divided. Unemployment spreads from State to State, the hinterland now settled that in pioneer days gave an avenue of escape. *Home Building & Loan Assn. v. Blaisdell*, 290 U. S. 398, 442. Spreading from State to State, unemployment is an ill not particular but general, which may be checked, if Congress so determines, by the resources of the Nation. If this can have been doubtful until now, our ruling today in the case of the *Steward Machine Co.*, *supra*, has set the doubt at rest. But the ill is all one, or at least not greatly different, whether men are thrown out of work because there is no longer work to do or because the disabilities of age make them incapable of doing it. Rescue becomes necessary irrespective of the cause. The hope behind this statute is to save men and women from the rigors of the poor house as well as from the haunting fear that such a lot awaits them when journey's end is near.

Congress did not improvise a judgment when it found that the award of old age benefits would be conducive to the general welfare. The President's

Committee on Economic Security made an investigation and report, aided by a research staff of Government officers and employees, and by an Advisory Council and seven other advisory groups.² Extensive hearings followed before the House Committee on Ways and Means, and the Senate Committee on Finance.³ A great mass of evidence was brought together supporting the policy which finds expression in the act. Among the relevant facts are these: The number of persons in the United States 65 years of age or over is increasing proportionately as well as absolutely. What is even more important the number of such persons unable to take care of themselves is growing at a threatening pace. More and more our population is becoming urban and industrial instead of rural and agricultural.⁴ The evidence is impressive that among industrial workers the younger men and women are preferred over the older.⁵ In times of retrenchment the older are commonly the first to go, and even if retained, their wages are likely to be lowered. The plight of men and women at so low an age as 40 is hard, almost hopeless, when they are driven to seek for reemployment. Statistics are in the brief. A few illustrations will be chosen from many there collected. In 1930, out of 224 American factories investigated, 71, or almost one third, had fixed maximum hiring age limits; in 4 plants the limit was under 40; in 41 it was under 46. In the other 153 plants there were no fixed limits, but in practice few were hired if they were over 50 years of age.⁶ With the loss of savings inevitable in periods of idleness, the fate of workers over 65, when thrown out of work, is little less than desperate. A recent study of the Social Security Board informs us that "one-fifth of the aged in the United States were receiving old-age assistance, emergency relief, institutional care, employment under the works program, or some other form of aid from public or private funds; two-fifths to one-half were dependent on friends and relatives, one-eighth had some income from earnings; and possibly one-sixth had some savings or property. Approximately three out of four persons 65 or over were probably dependent wholly or partially on others for support."⁷ We summarize in the margin the results of other studies by state and national commissions.⁸ They point the same way.

The problem is plainly national in area and dimensions. Moreover, laws of the separate states cannot deal with it effectively. Congress, at least, had a basis for that belief. States and local governments are often lacking in the resources that are necessary to finance an adequate program of security for the aged. This is brought out with a wealth of illustration in recent studies of the problem.⁹ Apart from the failure of resources, states and local governments are at times reluctant to increase so heavily the burden of taxation to be borne by their residents for fear of placing themselves in a position of economic dis-

² Report to the President of the Committee on Economic Security, 1935.

³ Hearings before the House Committee on Ways and Means on H. R. 4120, 74th Congress, 1st session; Hearings before the Senate Committee on Finance on S. 1130, 74th Congress, 1st Session.

⁴ See Report of the Committee on Recent Social Trends, 1932, vol. 1, pp. 8, 502; Thompson and Whelpton, *Population Trends in the United States*, pp. 18, 19.

⁵ See the authorities collected at pp. 54-62 of the Government's brief.

⁶ *Hiring and Separation Methods in American Industry*, 35 Monthly Labor Review, pp. 1005, 1009.

⁷ *Economic Insecurity in Old Age* (Social Security Board, 1937), p. 15.

⁸ The Senate Committee estimated, when investigating the present act, that over one half of the people in the United States over 65 years of age are dependent upon others for support. Senate Report, No. 628, 74th Congress, 1st Session, p. 4. A similar estimate was made in the Report to the President of the Committee on Economic Security, 1935, p. 24.

A Report of the Pennsylvania Commission on Old Age Pensions made in 1919 (p. 108) after a study of 16,281 persons and interviews with more than 3,500 persons 65 years and over showed two fifths with no income but wages and one fourth supported by children; 1.5 percent had savings and 11.8 percent had property.

A report on old age pensions by the Massachusetts Commission on Pensions (Senate No. 5, 1925, pp. 41, 52) showed that in 1924 two-thirds of those above 65 had, alone or with a spouse, less than \$5,000 of property, and one fourth had none. Two thirds of those with less than \$5,000 and income of less than \$1,000 were dependent in whole or in part on others for support.

A report of the New York State Commission made in 1930 (Legis. Doc. No. 67, 1930, p. 39) showed a condition of total dependency as to 58 per cent of those 65 and over, and 62 per cent of those 70 and over.

The national Government has found in connection with grants to states for old age assistance under another title of the Social Security Act (Title I) that in February, 1937, 38.8 per cent of all persons over 65 in Colorado received public assistance; in Oklahoma the percentage was 44.1, and in Texas 37.5. In 10 states out of 40 with plans approved by the Social Security Board more than 25 per cent of those over 65 could meet the residence requirements and qualify under a means test and were actually receiving public aid. *Economic Insecurity in Old Age*, *supra*, p. 15.

⁹ *Economic Insecurity in Old Age*, *supra*, chap. VI, p. 184.

advantage as compared with neighbors or competitors. We have seen this in our study of the problem of unemployment compensation. *Steward Machine Co. v. Davis, supra*. A system of old age pensions has special dangers of its own, if put in force in one state and rejected in another. The existence of such a system is a bait to the needy and dependent elsewhere, encouraging them to migrate and seek a haven of repose. Only a power that is national can serve the interests of all.

Whether wisdom or unwisdom resides in the scheme of benefits set forth in Title II, it is not for us say. The answer to such inquiries must come from Congress, not the courts. Our concern here, as often, is with power, not with wisdom. Counsel for respondent has recalled to us the virtues of self-reliance and frugality. There is a possibility, he says, that aid from a paternal government may sap those sturdy virtues and breed a race of weaklings. If Massachusetts so believes and shapes her laws in that conviction, must her breed of sons be changed, he asks, because some other philosophy of government finds favor in the halls of Congress? But the answer is not doubtful. One might ask with equal reason whether the system of protective tariffs is to be set aside at will in one state or another whenever local policy prefers the rule of *laissez faire*. The issue is a closed one. It was fought out long ago.¹⁰ When money is spent to promote the general welfare, the concept of welfare or the opposite is shaped by Congress, not the states. So the concept be not arbitrary, the locality must yield. Constitution, Art. VI, Par. 2.

Third. Title II being valid, there is no occasion to inquire whether Title VIII would have to fall if Title II were set at naught.

The argument for the respondent is that the provisions of the two titles dovetail in such a way as to justify the conclusion that Congress would have been unwilling to pass one without the other. The argument for petitioners is that the tax moneys are not earmarked, and that Congress is at liberty to spend them as it will. The usual separability clause is embodied in the act. § 1103.

We find it unnecessary to make a choice between the arguments, and so leave the question open.

Fourth. The tax upon employers is a valid excise or duty upon the relation of employment.

As to this we need not add to our opinion in *Steward Machine Co. v. Davis, supra*, where we considered a like question in respect to Title IX.

Fifth. The tax is not invalid as a result of its exemptions.

Here again the opinion in *Steward Machine Co. v. Davis, supra*, says all that need be said.

Sixth. The decree of the Court of Appeals should be reversed and that of the District Court affirmed.

Reversed.

MR. JUSTICE McREYNOLDS and MR. JUSTICE BUTLER are of opinion that the provisions of the act here challenged are repugnant to the Tenth Amendment, and that the decree of the Circuit Court of Appeals should be affirmed.

X. PRIVATE AND SOCIAL INSURANCE AND THE PROBLEM OF SOCIAL SECURITY, BY EVELINE M. BURNS

[Reprinted from Canadian Welfare, February 1 and March 15, 1953]

PART I

One of the most interesting and important consequences of the tremendous expansion of public social security measures has been a major transformation of the social instrument still popularly known as social insurance. This change can be summed up by saying that social insurance has increasingly shed the features which closely paralleled, or even duplicated, those of private insurance.

Social insurance has been applied in many countries to risks which would probably make an actuary shudder, because their occurrence is in large measure within the control of the beneficiary. An example is children's allowances.¹

¹⁰ IV Channing, History of the United States, p. 404 (South Carolina Nullification); 8 Adams, History of the United States (New England Nullification and the Hartford Convention).

¹ Although treated as a separate and wholly subsidized program in Canada and some half-dozen other countries, children's allowances in many others have evolved as an integral part of the social insurance system.

The scope of the program has been broadened, notably by admitting to benefit status people who, on the basis of contributions paid, could not possibly have earned the benefits secured.² In one country after another, benefits have been liberalized in favour of low income groups or those with family responsibilities, by the grant of dependents' allowances, the adoption of formulae which grant substantial unearned benefits or are heavily weighted in favour of the lower paid earners, and the enactment of relatively high minimum benefit amounts. Even more important has been the payment of cost-of-living supplements, or other allowances over and above the benefits to which the insured are actuarially entitled, and the grant of percentage increases in all benefits reflecting in some measure a rise in prices.

The methods of financing have changed also. The adoption of reserve policies has steadily declined. There has been a pronounced tendency for the general taxpayer to carry an increasing proportion of the costs. The public treasury may make regular, periodic contributions paralleling those of employers and workers. Or it may meet deficits as incurred. Or it may shoulder 100 per cent of the costs of certain parts of the program, such as children's allowances, or the costs of certain types of unearned benefits or of benefits paid for a longer time than the original scheme envisaged. In some countries, too, there has been a tendency to throw the whole cost, or the lion's share, on the employer.

IS IT "INSURANCE"?

As a result of these developments, in most countries with extensive and highly developed social security systems, social insurance has become an institution to which the word "insurance" can be applied only at the risk of a serious distortion of the language. An understanding of the difficult problems of public policy arising out of attempts to eliminate individual or family insecurity may be obscured by keeping the emphasis on insurance, and persisting in an effort to adapt current social insurance programs to an analogy which is no longer appropriate, if indeed it ever was.

In fact, almost from the first, social insurance differed from its apparently similar counterpart. The direct relationship between benefit received and contribution paid (for an actuarially evaluated risk) was loosened by the setting of minimum benefits, and the payment of dependents' allowances with no differential premium. The indemnity paid was often but loosely related to the loss incurred in the individual case, because the insured were grouped into wage classes or, in the extreme case, because uniform flat rate benefits were paid. There was nearly always some government subsidy, if only towards administrative costs. Full actuarial reserves were the exception, rather than the rule.

JUSTIFYING THE TERM

Efforts to justify these departures from private insurance principles and practices have taken several forms. Sometimes it has been argued that despite appearances to the contrary, the principle applied in social insurance is, in fact, a private insurance principle. For instance, throwing part of the cost on employers has been justified by arguing that in any case the employer's tax falls ultimately on workers who thus are really paying for their own benefits, or even that the risk insured against is really a risk to employers rather than workers.³

Often the departure from private insurance principles has been justified as a concession to the complexity of economic and social life which makes it difficult to define either the risk or the characteristics of those who have an insurable interest. Hence concessions have to be made either to administrative expediency or feasibility, or to what is held to be manifestly fair and reasonable and not too obviously discriminatory. In other cases, departure from strict private insurance practice is explained on the ground that social insurance is, in fact, an institution organically and structurally different from private insurance in certain identifiable respects, so that different policies are called for.

² The 1950 amendment to the American Social Security Act, which so liberalized eligibility requirements as to permit already elderly people to qualify for full benefit rights on the basis of as little as six quarterly contributions, is only one of the more spectacular examples of a tendency which is observable in many countries.

³ Thus A. D. Watson points out that workmen's compensation throws a liability on the employer and employer's liability insurance can be regarded as a natural development to protect him against this risk. A. D. Watson, *The Principles which should Govern the Structure and Provisions of a Scheme of Unemployment Insurance*, The Unemployment Insurance Commission, Ottawa, 1948, p. 3 n.

Thus, in old-age insurance programs, the abandonment of the full reserve, and in some cases even of any sizable contingency reserve, has been justified on the ground that the compulsory feature of social insurance renders accumulation of reserves unnecessary. In private insurance it is held that reserves are necessary so that claims will be honoured when they fall due; in social insurance, the state can control the present and future numbers of the insured and adjust the premiums whenever necessary, with no fears of losing the more profitable business to rivals.⁴

The variety and character of the rationalizations for eliminating from social insurance, or modifying, one or more of the features of private insurance, suggest that the analogy is being carried too far. So do the explanations by "insurance-minded" people of the specific provisions of a social insurance scheme that aims to mirror private insurance.

THE ANALOGIES BREAK DOWN

In the first place, the analogy is not always exact. For example, contributions by employers are not merely an indirect method of collecting premiums from workers. Economic analysis suggests that not all of the employer's tax is passed on to potential or actual beneficiaries. Some sticks to the employer; more is passed on to consumers in general. But consumers in general are not identical with the beneficiaries. So some element of subsidy is involved. How much, and how it should be allocated among various segments of the population, must be faced as issues of public policy.

Again, there is no analogy between the employer who pays for welfare benefits received by his employees and the employer who contributes to a social insurance scheme. The former decides freely whether to insure or not. The latter is compelled to pay what is essentially a special purpose tax.

The analogy between the employer deciding whether to insure or not and the government deciding to set up a social insurance system also breaks down. The former, if he decides to insure, must buy at prevailing rates, determined by actuarial calculation and the forces of competitions. The cost is given. He has little or no control over the extent of the risk. But when government acts, the situation is different. The extent of unemployment or ill health is a critical factor in determining the cost of unemployment or sickness insurance. But this is something over which government can exercise some control. Cost can no longer be taken as a given, externally determined item.⁵

Above all, the employer, deciding whether to buy insurance, and if so, how much, is not responsible for the maintenance of those whose needs the insurance does not meet. Government is. For the employer, wider risk coverage, or more liberal interpretation of eligibility requirements will raise the premium. This may make him buy less. But for government, a low premium (i. e., a low unemployment insurance tax, however shared among employer, worker, and general taxpayer) merely results in higher expenditures (and therefore higher general taxes) to maintain those excluded from the insurance system. The choice of how much income loss to provide against through one system or another then moves into the realm of social and economic considerations where insurance principles once again can provide no guide.

In the second place, once any of the provisions paralleling private insurance are abandoned, for any reason other than the admission of a specific organic difference between private and social insurance, some criteria other than insurance practice must be invoked to justify the change. When these run in terms of "practicality" or "fairness" the question insistently arises, "Why not then abandon other features?" If, to limit unemployment insurance to people with an insurable interest, you adopt recency of attachment to the labour market as one criterion, what is a "reasonable record" of employment? 60 or 75 days in the preceding months, or 45 or 60 in the preceding six months? What is sacred about

⁴ For a comprehensive survey of the views of actuaries on this subject, see Reinhard A. Hohnaus, "Reserves for National and Old Age Pensions," *Transactions of the Actuarial Society of America*, October 1936, pp. 330 ff.

⁵ This point has been emphasized by the Canadian Welfare Council's Unemployment Insurance Committee. Its report shows clearly that the "cost" of unemployment insurance depends essentially on the government's own decision as to what shall be assumed as "normal" unemployment. (*Interim Report*, p. 3.) In Britain, the apparent cost, and therefore to some extent the "worthwhileness" of unemployment insurance of any given scope, has similarly been vastly changed by a governmental instruction to the Actuary in 1951 to assume an unemployment average of 4 per cent as against the assumed 8½ per cent in 1946 or the over 16 per cent in the nineteen-thirties. For an elaboration of this difference between private and unemployment insurance, see Alan T. Peacock, *The Economics of National Insurance*, London. W. Hodge and Co., 1952, pp. 40-50 and 56-60.

seven wage classes? Why not more, or fewer? If dependents' benefits are paid at all, without differential premiums, is there any reason why they should (as in some countries) exclude the wife, or (as in others) be payable for only a limited number of children? They are sometimes justified, "insurance-wise," on the ground of the greater insurable interest of the man with a family, or the claim that the family man is more alert in seeking opportunities for work.⁶

But why does the same argument not justify paying benefits for long-term unemployment? The significance of the wage loss, and the pressure to seek employment, must be even greater for the man who has been unemployed for many months, than for one who has been out of work for only a few weeks. If some people are granted unearned benefits, why not others? Once any unearned benefits are granted, why lay their cost on employers rather than workers? Why on the higher-paid wage earners rather than on income-receivers in general? If a small government contribution, why not a larger one?

Proponents of the insurance approach have very properly warned that the consequence of departing from strict insurance principles is precisely that it opens the door to just such questions. Thus A. D. Watson, the author of what is probably the most sustained and consistent effort to relate social to private insurance, states: "The transgression of sound insurance principles leads into the wilderness, and once in there may be no return."⁷ Yet in the attempt to devise the specific provisions of an unemployment insurance law, even this author finds, himself forced to fall back upon principles which run in terms of what is "reasonable," "administratively feasible," or "practically fair."⁸ But such words can be interpreted only in relation to some underlying purpose, some specific social environment and set of prevailing social values.⁹ The decision as to precisely what is "reasonable" thus involves a balancing of interests and objectives. In this process, private insurance concepts not only provide no solution, but may have the dangerous consequence of partiality concealing the fact that these issues and conflicts exist.

SOCIAL CONSIDERATIONS AFFECT SOCIAL "INSURANCE"

The introduction of these social considerations, which are essentially irrelevant to private insurance (even by those who most strongly defend the private insurance approach) suggest already that the purposes of the program, and therefore the problems it must grapple with, are essentially different from those of private insurance. Yet of those who frankly defend departures from private insurance principles and practices by identifying specific organic differences between the two, not all carry their inferences to their logical conclusion. The one fact which leaps to the eye, and is most generally admitted as marking the distinction, is the compulsory feature of social insurance. But this has implications far wider than just for reserve policy. For one thing, once it is decided that people can be compelled to make contributions toward the cost of financing specific

⁶ Watson, *op. cit.*, p. 42.

⁷ *Ibid.*, p. 11.

⁸ See, in particular, *ibid.*, section III. In the paragraphs dealing with qualifying conditions, the words "reasonable" or "unreasonable" occur seven times, and they occur almost as often throughout the rest of the Report. The proposed ratio rule is defended on the ground that its results will commend themselves as "reasonable and fair" to those affected (pp. 38-40); linking individual contributions and benefits is urged because otherwise there may develop in people's minds "a sense of unfairness" (p. 43); considerations of administrative practicality are urged in partial justification of failure to change the contribution with family status (p. 43), and for rejection of a benefit formula involving a flat sum with an addition based on average contributions over a "reasonable" period (p. 44).

⁹ The purpose of the program and its possible economic consequences are recognized as important considerations when "for the good of the economy as a whole" it is urged that periods in non-insurable employment should not, within limits, impair the unemployment insurance status of individuals (*Ibid.*, p. 37); or when the undesirability of prolonged payment of benefit is supported by the arguments that "it is not an understandable status in any economic system that a person capable of and available for work should qualify for benefit permanently, indefinitely or even for any very long period," and that in any case, "benefit for any long period is not the right therapy" (p. 33). Similarly, in justifying a substantial waiting period, the author finds it necessary to point out that "persons who work nearly the whole year may reasonably be expected to absorb a substantial waiting period" (p. 32); and the social purpose of the program is also implicitly recognized when a uniform duration provision is rejected on the ground that if the qualifying conditions are set so high that those who satisfy them have a sufficient insurable interest to justify the prescribed period of benefit, this would unduly restrict coverage and be "unsatisfactory" (p. 38), or when a flat rate of benefit is rejected because, among other things, it is "rather certain to be too low to be considered satisfactory by persons in the higher earnings classes" (p. 42), while a rate expressed as a percentage of earnings, if "about right for persons in the central earnings classes would be too low to meet minimum needs of persons in the lower earnings classes" (p. 43).

benefits, the concept of actuarial soundness itself takes on a different complexion. "Soundness" can then only mean that income must equal outgo over some defined period. This can be secured by changing the contributions, the benefits, or both. Nor, since the plan is compulsory, need contributions be restricted to actual or potential beneficiaries. It is no longer a matter of offering each individual a choice as to how much protection he will buy at the range of premiums yielded by the calculations of the actuary. Unlike the private insurer, the government is not restricted by the fear of competition, and can safely offer differential benefits for uniform contributions, or discriminate against certain insured groups. In such a system, the actuary obviously has a part to play, but it is subsidiary. As Reinhard A. Hohaus, vice-president and actuary of the Metropolitan Life Insurance Company, has pointed out, the calculations of the actuary in social insurance contribute to the determination of social policy by "indicating in terms of possible potential cost, the relative effects of one or another of various social insurance plans under consideration, assuming, of course, similar conditions. . . . They aid in determining the important fact of whether, other things being equal, one given plan would involve greater benefit expenditures than another and relatively how much the difference between them would be."¹⁰

But the decision between a high cost and a low cost plan giving respectively more or less protection, and the decision on the precise allocation of costs, are not and cannot be made on actuarial grounds. They are matters of conscious social policy. Part II of this article will discuss the relation of social insurance to social policy.

PART II

The experience of all countries that have attempted to mould their social insurance systems on a private insurance analogy reveals that the purpose and problems of private and social insurance are basically different. In private insurance, the the purpose is to make a profit out of selling people something they want. The essential criterion governing every decision as to terms and conditions is its effect upon the continuing existence of the company. Obviously, if the company is to continue operating in a competitive world, it must offer services that people think it worth while to pay for, and run its affairs in such a way that the guarantees offered will be honoured when due. Thus the provisions of private insurance are designed to protect the insured against the insurer's failure to deliver, and to protect the insurer against inappropriate or improper claims by the insured. Both objectives tend to limit the scope of insurance to contingencies and persons where controls which will leave the fund with a margin of safety are feasible. This is in the interests of insurer and insured alike. But the test is always, in the last resort, the risk to the enterprise, the company itself.

PURPOSE OF SOCIAL INSURANCE

In social insurance, the purpose is different. Public action, involving compulsion, is invoked to deal with a social problem, the lack of basic economic security, and the criteria applied are at once wider and less obvious than those appropriate to private insurance. They are wider, because the public social insurance system has to show that it is an effective answer to the social needs that provoked public action in the first instance. Hence it is not enough for social insurance to show that it is operating in an actuarially efficient way; that over the years income and outgo are in balance. It must also show that it is reaching the social objective that called it into being. Already in 1938, Reinhold A. Hohaus, in a brilliant article, had clarified the distinction, and emphasized that adequacy rather than equity was the essential criterion of social insurance.¹¹

SOCIAL INSURANCE AND THE GENERAL WELFARE

The criteria of success are also less obvious and precise than those of private insurance. Once government enters the field, conferring benefits and compelling sacrifices, policies embodied in the legal provisions of the scheme are judged by

¹⁰ "Equity, Adequacy and Related Factors in Old Age Security," *The Record*, American Institute of Actuaries, June 1935, pp. 91-2.

¹¹ "Just as considerations of equity of benefits form a natural and vital part of operating private insurance, so should considerations of adequacy of benefits control the pattern of social insurance. . . . The foregoing need not necessarily imply that all considerations of equity should be discarded from a social insurance plan; rather the point is that, of the two principles, adequacy is the more essential and less dispensable." "Equity, Adequacy, and Related Factors in Old Age Security," *The Record*, American Institute of Actuaries, June 1935, p. 84.

their effect upon the general welfare as currently interpreted. This is a concept made up of many variables, and a changing concept. It is then a question of balancing interests: the interests of the beneficiaries against those of the people who pay for them; the interests of the producing sectors of the population against the non-producers, and the like.

In the search for an acceptable form of social security, a social insurance system patterned strictly on private insurance can never offer more than a limited solution. It is necessarily limited in the risks it can provide against. In particular it is powerless in the face of a major contemporary risk to economic security, namely, a rising price trend. It tends to give the least benefit to those who need most. It necessarily excludes those who are already experiencing the risk when the system is put into operation. It is, therefore, not surprising that where modifications of private insurance principles have not occurred, and where no consideration has been given to the wider concept of "social interest" in framing the provisions, social insurance has played a limited role. But the only consequence has been the development, side by side with the social insurance system, of one or more alternative social security programs with all the disadvantages of dual or multiple administrative systems. These, in terms of beneficiaries and expenditures, are often more important than the social insurance programs. Furthermore, where there is a strong dislike of the means test or of discretionary payments, the benefits under these other systems have tended to be similar to those of social insurance, without all its safeguards.

SYSTEMS OF SOCIAL SECURITY

Contemporary societies, characterized by a strong demand for a predictable measure of publicly assured income security, therefore, face a dilemma. They can equip themselves with a carefully protected, privately oriented, insurance plan that solves only part of their problem, and parallel it with one or more additional social security systems. Or they can utilize a single system deliberately planned to provide for the needs of the vast majority of the population. Social insurance as it operates today in many countries, hybrid though it be, and unfortunately named, is one of the possible answers to the search for such a comprehensive program.¹²

SOCIAL INSURANCE IN A COMPREHENSIVE SERVICE

From this point of view, three features of modern social insurance are of crucial importance. First, the social insurance law sets out the nature and amount of the benefits available, either as a specific sum, or in a formula to be applied to some specified and objectively determined quantity. Second, it defines the contingencies in which benefits are payable and the conditions of eligibility in terms which also tend to be highly objective. Third, the vast majority of social insurance systems collect at least part of the costs from potential beneficiaries.

Such systems clearly have many normal similarities in private insurance; similarities so great as to mislead many into thinking that the provisions of the law have been and should be arrived at by a direct application of the theories and practices of private insurance. In fact, however, the theoretical justification and the practical purpose of what are often identical provisions are very different.

WHAT DETERMINES BENEFITS:

The predictable guaranteed benefit common to both systems is made available in social insurance not because it is part of a contract between the individual and the "insuring" authority, but as a matter of deliberate public policy: because it is what public opinion demands, and is determined to secure in one way or another.

The limit to duration of benefit, also often found in both social and private insurance programs, finds its theoretical justification not in the private insurance principle of equity or as an application of the concept of indemnity, but by reference to the two social concerns which impelled the community to invoke government action: a concern for people and a desirable to give them a form of security that is most in keeping with their expressed wishes; and a concern for the

¹² The poor law or general assistance system is another, which is, however, in many countries ruled out because the community insists upon a predictable, nondiscretionary system. The income-conditioned pension as it operates in New Zealand is another possibility. It differs from modern social insurance systems primarily in that it includes a legally defined income test among its eligibility conditions. Otherwise, what is said about the purpose of the specific provisions of social insurance applies also to the income-conditioned pension.

economic well-being of the community as a whole and a desire to keep the cost as low as possible.

Hence the precise duration of, for example, unemployment insurance benefit, can no longer be simply determined by applying a ratio rule. It is determined by a conscious choice between the insurance type of benefit and some other measure of meeting the income needs of people unemployed for more than a certain period. The decision will be influenced by the nature, relative cost and feasibility of other available measures: by the absolute numbers who would be excluded from insurance benefit by the adoption of any given duration limit; by the effectiveness and cost of administrative controls on malingering; by the community's willingness to run the risk (for a longer or shorter time) that a proportion of the beneficiaries may in fact not be "involuntarily" unemployed. It is evident that the weight given to these considerations will change from time to time, and in social insurance the law will be changed accordingly, for a social program must inevitably reflect social values.

WHAT GOVERNS ELIGIBILITY?

Like private insurance, social insurance sets out clearly defined eligibility conditions. But their purpose and justification are different. Both systems try to protect themselves against fraud (e. g., making payments to people who have not met the eligibility conditions, or who have deliberately created the contingency they are claiming benefit for). But social insurance, even where it restricts eligibility to those who have paid a given number of premiums, or applies tests formally similar to those by which private insurance restricts claims to people with an insurable interest, does not do so as a conscious application of insurance principles. Once again, the specific provisions are justified in terms of social purpose.

This point can be particularly well illustrated by the eligibility provisions. Restriction of eligibility to people who have paid a certain number of contributions may be adopted in social insurance as an effort to enforce a certain principle of cost allocation (that the beneficiary should pay part of it); or as a first approximation to classifying the population into those who do, or do not, habitually make their maximum contribution to the nation's economic output (since people who have not worked regularly in the past will not have made the necessary number of contributions); or as a method of identifying those on whose behalf society deems it desirable to invoke governmental action (e. g., those who seem to have been dependent on salaries or wages and for whom therefore loss of work is likely to create an income problem).

So long as the prior payment of contributions is conceived as a direct application of insurance principles, any modification of the requirement must seem a dangerous abandonment of principle. But if the requirement is clearly seen to relate to social purpose, and if its retention appears to limit unduly the contribution the program can make to solving the income security problem, then attention is focused on the purpose, and one could ask whether the same objective could not be reached in some way that did not so seriously limit the program's usefulness.

Are we just trying to enforce contributions? Then how much is gained by using the social security system for tax enforcement? Mightn't it be possible to leave tax collection to the tax collector?¹³

Are we trying to test the individual's economic effectiveness? If so, does this method really separate the sheep from the goats? Is there some other method which would do it as well, without so seriously restricting the usefulness of the program? What about a more efficient employment service?

Are we trying to define the categories of people in whom society has so great an interest that public action will be taken on their behalf? (In this case, that means those who have secured a substantial proportion of their income from labour subject to tax.) If it turns out that the group thus selected is smaller than the total for whom society is prepared to offer a predictable income guarantee of the social insurance type, proposed modifications of the contributory requirement, or its elimination, raise questions not of abandonment of an insurance principle but of broad social policy. The answers will depend on judgements about a variety of things. If you admit a group to benefit status, what will be

¹³ It is significant that a number of countries with highly developed tax collection systems and low income tax exemptions do not make eligibility conditional on proof of payment of contributions, even though they continue to collect part of the cost of the program from actual or potential beneficiaries (e. g., New Zealand for almost all programs, and Sweden for old-age pensions).

the effect on economic incentive? What are the relative numbers of included and excluded groups? What kind of supplementary system is available? Can we maintain two parallel social security systems, enough alike to satisfy the public demand for a predictable, non-discretionary form of social security, but different enough to justify separate administrations?

From what has been said about the purpose of eligibility provision, it will be evident that the concept of insurable interest, if it can be said to exist at all in social insurance, is very different from that which underlies private insurance. In the latter, it is an *individual* concept: the rules are devised to eliminate those individuals who cannot be held to have an insurable interest in the risks insured against. In social insurance, as indeed the name of the institution suggests, the concept is *social*: the purpose of eligibility provisions is to limit payment to those whose needs create a social interest. This interest is twofold: to give some or all of the people a guarantee of income in a form that meets prevailing views of what is acceptable, and to do it in ways that minimize the adverse effects on the economy as a whole.

THE BENEFICIARY'S CONTRIBUTION

The collection of some of the costs from the beneficiary, the third feature of social insurance which suggests an analogy to private insurance, also derives from different theoretical considerations. It is adopted not as an application of insurance principles but to achieve a specific purpose: To establish in the minds of beneficiaries some sense of the relationship between benefits and cost: or to overcome a reluctance of workers to accept public payments at one time identified with the "poor law"; or to reconcile the rest of the community to a system which makes nondeterrant social security payments, by invoking the familiar procedures of private insurance;¹⁴ or to justify the payment of differential benefits; or for purely fiscal reasons (because it is an efficient and acceptable way or raising the money); or to fit a prevailing view of social justice in the distribution of tax burdens. Thus the extent of the worker's contribution will be influenced by the importance society attaches at any time to these purposes, by changes in the social and economic environment, and by what experience teaches about the effectiveness of the device in achieving the ends sought.

ABANDONMENT OF ANALOGY WITH PRIVATE INSURANCE

It is easy to see why there is reluctance to abandon insurance analogies as the criteria for answering the central questions raised by a public income security program: How much and what kind of security? To whom? Who shall pay for the income nonproducers get? It means giving up a nice, simple, automatic test, and facing the central and perplexing issues of social policy that arise whenever the public decides to use Government to achieve certain ends.

But abandonment of the insurance analogy is inevitable. For the experience of all countries has shown that the answers given by a strict application of insurance theory are inadequate, and irrelevant to the major problems, and that their apparent finality is an illusion. Social purpose has either enforced such drastic modifications of the "insurance" element in social insurance as to make retention of the word not merely unjustified but misleading; or it has led to the creation of other instruments, side by side with a restricted insurance scheme, to carry out the public will more effectively.

REAL CHARACTER OF SOCIAL INSURANCE

Nor should this conclusion dismay us. Once we are prepared to accept the instrument which happens to be called social insurance for what it is, namely a means of using government to guarantee predictable, nondiscretionary cash payments to some or all members of the community, we are more likely to appreciate the real nature of economic and social issues and conflicts that arise. We shall be less likely to retain specific provisions that do not serve their purpose if we force ourselves to say what that purpose is in each instance. And we shall be more likely to equip ourselves with an instrument that is responsive to changes in social values and in the economic environment. We shall be facing, instead of evading, the central issues of public policy.

¹⁴ On the historical role of these analogies in securing acceptance of a new public policy of provision against economic insecurity, see Eveline M. Burns, "Social Insurance in Evolution," *American Economic Review Supplement*, March 1944.

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XI. THE SOCIAL SECURITY OUTLOOK, AN ADDRESS DELIVERED BY M. ALBERT LINTON, UNIVERSITY OF MICHIGAN, JUNE 3, 1953

Probably not in this session of Congress, but almost surely in the session next year, preceding the congressional elections, the social-security pot will be boiling. By social security I refer primarily to Federal old-age and survivors insurance (OASI). There are several reasons why social security will receive attention. President Eisenhower in his first message to Congress said: "The provisions of the old-age and insurance law should promptly be extended to cover millions of citizens who have been left out of the social-security system."

This clear-cut statement practically insures congressional efforts to extend the OASI protection to groups of workers not now covered. Study of ways and means of achieving the maximum practicable extension are now going on in the Social Security Administration, assisted by a group of outside consultants.

Another reason for the rising interest in the social-security problem is the interesting proposal by the Chamber of Commerce of the United States supported by a large referendum vote, to extend OASI coverage to the present retired unprotected aged, with the new OASI benefits replacing the Federal grants to the States under the old-age assistance (OAA) program. That this proposal will raise many questions and provoke controversy is a sure bet.

Still another reason why the pot may boil is the latent hope of some groups and individuals who opposed the New and Fair Deals that the atmosphere may be favorable to abolishing the "socialistic" OASI program. What they propose in its place will vary with different groups. Some will propose a type of "Townsendism" with level benefits for all retired aged supported by one or another kind of taxation. Some voices may be raised for a system of free grants based upon a "means" or "needs" test, similar to the present OAA program. The Brookings Institution some time back advocated a means test program. In my opinion if any political party wants to commit suicide, advocacy of such a solution of the broad problem of old-age security would be a sure way of doing it. This country wants to work toward a system of old-age benefits paid as a "matter of right" and not made dependent upon the "pauper's oath" as the means test is sometimes called.

At present about 60 million persons are gainfully employed in civilian occupations. Of these about 48 million (80 percent) are covered by the OASI system. The most important groups now not covered are—

Classification:	Approximate number
Self-employer farm operators-----	3, 900, 000
Farm workers-----	1, 100, 000
Household workers-----	830, 000
Self-employed professional people-----	490, 000
Other self-employed-----	400, 000
Employees of nonprofit organizations ¹ -----	440, 000
Federal employees ² -----	1, 520, 000
State and local government employees ² -----	3, 250, 000
Total-----	11, 930, 000

¹ Almost a million employees of nonprofit organizations are covered.

² Covered generally by some other public retirement system.

Time does not permit a detailed discussion of the circumstances affecting the coverage of these now excluded groups. No doubt the report of the group working on the problem with the Social Security Administration will be available before long. It should be interesting reading.

THE WORK CLAUSE

One feature of the present law has drawn widespread criticism. It is the so-called work clause which cuts off all benefits if a beneficiary under age 75 earns over \$75 a month in covered employment. This works most unsatisfactorily in many cases. A man and wife may be receiving benefits of say \$120 a month, and the husband earns \$76. Then all benefits are cut off. Cases like this have naturally evoked much emotional reaction. Editorials condemning the provision have been written and bills have been introduced in Congress to change it, either by raising the earning limit or by abolishing it altogether. This type of work clause is looked upon as discouraging work after 65, at a time when there is a steadily rising tide of opinion that the country would be better off if it had the benefit of the productive abilities of older workers.

To pay benefits irrespective of earnings would be to transform the program into one providing annuities as though they had been bought and paid for as in private insurance. It would mean that every employed person in covered employment would receive an increase in pay at age 65. No doubt when labor was plentiful it would mean that persons in receipt of benefits would be willing to work at reduced rates of pay, thus strengthening their positions in job competition with younger workers. Furthermore, to pay the OASI benefits as annuities would cost about 1 percent of payrolls. In the course of time, as the benefits build up, this extra amount (equivalent now to about \$1.3 billion a year) would be a burden. Really necessary social-security benefits would have to be reduced, or payroll tax rates increased beyond the rates that otherwise would have to be levied. When these reach a total of 6 percent or more an extra 1 percent would be a real handicap.

The solution to the work-clause problem, as I see it, would be to adopt some form of sliding-scale plan under which a beneficiary could earn a certain amount without affecting his benefits. Suppose this amount were \$50 a month. Then any amount earned in excess of \$50 would operate to reduce his OASI benefit. The reduction might be a 100 percent of the excess earnings, or some smaller percentage, thus providing an incentive to engage in production work. It is believed that this kind of program could be worked out administratively, based upon quarterly adjustments. It is well worth careful study. Incidentally, a reasonable solution of the work clause problem would have considerable effect upon the attitude toward the OASI system of self-employed groups which have feared that if they were included in the system their chances of collecting benefits would be small. Self-employment as we know continues in a great many instances well beyond age 65. A sliding-scale type of work clause was suggested by the advisory council in its report in 1948.

Opposition to any nationwide system of old-age protection must however be conducted with great circumspection, at least as far as politics is concerned. The people of the United States by and large believe in old-age security, especially with the experience of the old people in the great depression of the 1930's as an object lesson. Hence opposition is likely to take the form of opposing extension of the coverage to groups not now covered. The OASI system will not operate smoothly in the long run with a substantial number of workers left outside. Hence, to those opposed to the system, preventing its smooth working is a desirable goal in itself. Maybe something will turn up to cause the system to break down.

No doubt we shall also hear more hue and cry that the OASI trust fund or "reserve" is a fraudulent, unreal thing that should be abolished. How thinking people can so describe the trust fund is beyond me. But they do, and they have to be reckoned with. Later on we shall analyze their arguments.

All in all, it would appear that the next 18 months will hold much interest for those who concern themselves with social-security matters. Despite all the clash of differing opinions I am inclined to the belief that out of it all will come improvements in the OASI program which will make it operate more smoothly and with fewer anomalies than is now the case.

COVERAGE

President Eisenhower's declaration in favor of extending OASI coverage is very much in order as a means of making the system work more smoothly and with greater fairness to many participants. As things now stand a large number of persons go into and out of covered employment. Millions pay taxes to the system and leave it without obtaining any benefits. The more who reach retirement age without OASI coverage, the longer will it be necessary to continue the OAA program with its competing free grants. Furthermore, many persons with relatively short employment in covered occupations still are able to acquire sufficient credits to enable them to qualify for minimum OASI benefits for which very small tax payments will have been made. With universal coverage, the taxes paid over the years would considerably increase the tax revenue vis-a-vis the benefits.

TYPE AND LEVEL OF BENEFITS

What about benefits? As we know, they now vary with average wages, the first \$100 of the average being heavily weighted in computing the benefits. The formula for determining the benefit is 55 percent of the first \$100 of average wages plus 15 percent of the excess up to \$200. The maximum primary benefit is therefore \$85 corresponding to an average wage of \$300. The minimum is \$25. There are some who would do away with varying benefits and substitute level benefits for all. One reason advanced is that in doing so the individual payroll tax records would be done away with thus saving enormous sums of money.

Let's look at this argument a moment. In the first place the total administrative cost of the OASI system, including collection of taxes, keeping the individual wage records, and disbursing the benefits is less than 2½ percent of the income of the system. That to my mind is a relatively small cost to pay for maintaining a system of varying benefits and avoiding the pitfalls of the level benefit program.

Average wages in this country vary widely. In 1950 (the latest year for which figures are available) the average income payment to individuals was \$1,436 a year. In the low state it was \$698 and in the high state \$1,909. In selecting a single level figure for the uniform pension what would that level be? If it were set low, then the higher paid workers would find it unacceptable. If it were set high, not only would the burden of cost be dangerously heavy, but the benefits would enable older persons in the low-income groups to live in retirement in much greater relative comfort than those in the high-income groups. I just cannot see how a level benefit could meet the needs of a country with incomes that vary as much as they do in the United States.

The group which formulated the Social Security Act in the first place, and both advisory councils, believed that graded benefits were essential for this country. The most recent advisory council stated in 1948 the basic principle as follows:

"The council favors as the foundation of the social-security system the method of contributory social insurance with benefits related to prior earnings and awarded without a needs test. Differential benefits based on a work record are a reward for productive effort and are consistent with general economic incentives, while the knowledge that benefits will be paid, irrespective of whether the individual is in need, supports and stimulates his drive to add his personal savings to the basic security he has acquired through the insurance system. Under such a social insurance system, the individual earns a right to a benefit that is related to his contribution to production. This earned right is his best guaranty that he will receive the benefits promised and that they will not be conditioned on his accepting either scrutiny of his personal affairs or restrictions from which others are free."

I believe the judgment of the country will continue to support that position.

Another problem posed by a level benefit program would be the tax system to support it. No tax system is perfect. All are subject to criticism of one kind or another. However, the payroll tax supporting the OASI system has been relatively satisfactory and has had unusual acceptance by the workers of the country. If it were done away with, what would take its place? Our tax burden is already extremely heavy and so distributed that it is in danger of stifling energy and initiative. A sales tax would be widespread, corresponding to the widespread character of the benefits. It is doubtful, however, that it would be politically acceptable. A personal income tax to provide the needed revenue, added to the heavy load we now have, could be dangerous from the

point of view of the economy as a whole. Corporation taxes which take more than half of a company's earnings are not only burdensome, but tend to prevent the dynamic expansion needed to create new jobs and increase employment opportunities. To add an additional corporation tax on top of what we now have would be most unwise. I doubt that anything more acceptable could be found than the payroll tax system combined with benefits geared to wage levels.

Furthermore, in adopting a level benefit system the benefits, because of the cost, would have to be well below the present OASI maximum. The consequent reduction in the benefits which millions of workers have been led to expect they would receive, would certainly have unsatisfactory repercussions. What good would Uncle Sam's word be in the future? Repudiating solemn obligations when the convertibility of our currency into gold was abandoned did not affect many people directly. Going back on what would be looked upon as pension promises would strike close home.

One accusation sometimes made against our present system has intrigued me. It is called "socialistic." Just what is socialistic and what is not sometimes puzzles me. A heavy progressive income tax and free education for all children in public schools were two planks in the Communist Manifesto of 1848. Maybe the OASI program is socialistic. In any event some who so label it advocate a level benefit program with some form of taxation other than the payroll tax. If the OASI system is socialistic, then the level benefit system appeals to me as being more so.

The longer the OASI system remains in effect, the more nearly will the direct payroll taxes paid by employees and employers come to meeting the costs of the individual benefits provided by the program. The plan is, of course, set up in such a way that the lower paid workers get more for their money than do the higher paid ones. However, average wage levels, benefits and taxes are definitely related to each other.

The alternative program, on the other hand, would provide flat benefits and would be unlikely to be set up in such a manner that there would be any definite relationship between the wages, benefits, and taxes. If anything, it is more likely to go much further in the direction of giving the lower paid workers relatively more than under the present plan, and the higher paid workers less. I leave it to any fair-minded person as to which is the more aggravated type of "socialism."

One thing should be continually kept in mind when considering the level of benefits that should be adopted under any Government system such as OASI. It is the true role of social insurance. Its proper function is that of providing a reasonable basic floor of protection for its beneficiaries. It should be a system providing benefits on a level which would always leave ample opportunity and incentive for the individual to supplement them by his own efforts. The country would be in grave danger the moment social insurance benefits reached levels that would kill the incentives to work and strive for something better. Moreover the effect upon the national character would be serious. In the world struggle for survival the emphasis must be on self-reliance and character that seeks to make its way through productive work and enterprise.

Furthermore, there would be grave political dangers inherent in making the benefits adequate for comfortable living. To do so would place in the hands of the Central Government tremendous power over the individual citizen. Any party, desiring to do so, could abuse that power and keep itself in office long enough to destroy the checks and balances provided by the Constitution to prevent the rise of tyranny. If we should ever arrive at the position when the great mass of the people would be looking to the Federal Government for complete security against the hazards of life, we would be well on our way to dictatorship. In order, therefore, to protect our individual freedoms, ample opportunities and incentives must be afforded for the exercise of individual initiative to provide additional security over and above what the Government program provides.

THE RESERVE PROBLEM

A strange illusion which has persisted for years, and in some quarters is still going strong, is that the OASI trust fund or reserve is a fiction. It is claimed that it consists simply of the obligations of one branch of the Government to another, and hence lacks real value, the money having been spent by the Government. The claim is also made that the reserve involves double taxation—payroll taxes in the first instance and taxes to pay interest on the obligations and to repay the principal in the second instance.

Take first the claim of no value. The obligations of the Government held in the trust fund, now amounting to about \$18 billion, consist in small part of regular Government bonds such as are held by the public, and in large part of special bonds issued to the trust fund. This special issue provision is one of the things which has tended to mislead the layman. We shall discuss it in a moment.

The OASI system has many of the features of life insurance. The millions of OASI participants pay sums into the system to be used for OASI purposes. These sums are called taxes, but in reality are compulsory contributions to the OASI system, altogether different from taxes levied for general purposes. The trustees of the OASI trust fund now have a large excess of income over outgo. What should they do with it? Obviously, it wouldn't make sense to keep it in the form of paper currency, baled up in a warehouse. To invest it in the securities of private corporations would be to launch the Government into state control of enterprise. Hence the Congress provided that the excess should be invested in United States Government obligations. Since the Government is continually borrowing money either to pay current expenses or to refund maturing obligations, the trust fund is a logical place from which to borrow.

Clearly the trustees of the OASI trust fund stand in a position very similar to that of the management of a life insurance company. The company's policyholders make premium payments, which in the aggregate in a growing company exceed the outgo for claims and expenses. The excess is invested in securities, many of them United States Government bonds. We have a clear example in the United States Government life insurance issued to servicemen in connection with both World Wars. There too there is an excess of income over outgo which has been invested in United States Government bonds, especially issued for the purpose, the proceeds of which have been spent by the Government. No one I ever heard of has called these Government life insurance reserves fictitious. Yet they are all special securities issued by one branch of the Government to another. This life insurance reserve, now amounting to some \$6.5 billion, is just as real as the reserves held by the life insurance companies. By what strange reasoning is the OASI reserve called fictitious and the Government life insurance reserve real?

Likewise the reserves in the unemployment trust fund, amounting to some \$8.5 billion, are invested in the obligations of one branch of the Government to another. In this instance the securities are not special issues but are part of the same issues as are held by the public. These reserves go up and down with economic conditions. Bonds can be sold to raise needed cash when unemployment benefits are unusually high, or bought when they are low and the fund is increasing. The plan involves taxes levied on employers for the specific purpose of supporting the unemployment compensation system. No one I ever heard of has claimed that the program involved double taxation—taxes to support the system and taxes later to service the United States bonds in the UC reserve.

No doubt the "special issue" provision for bonds in the OASI trust fund has thrown many people off the track. If they had been regular issues bought by trustees of private funds, life insurance companies, savings funds, trust estates, etc., there would have been less misunderstanding. This misunderstanding could be lessened if it were realized that Congress could, if it desired, authorize the special issues in the OASI trust fund to be sold on terms corresponding to then current conditions in the financial markets. This is what happens in the unemployment trust fund. If the \$18 billion in the OASI reserve should be sold over a period of time in the open market, then the trustees would have cash in bank and the public would have the \$18 billion of Government bonds; as they would have had if the Government had borrowed the money from the public in the first place rather than from the OASI trustees. In the event of such a sale the OASI trust fund would suddenly become a very tangible reality. How strange to consider it fictitious when it consists of Government bonds which could be sold for cold cash.

Next, what about the "double taxation" charge? The first step in getting out of the fog on that problem is to realize, as already indicated, that the OASI payroll taxes are in reality contributions, albeit compulsory ones, made by millions of persons toward the support of a program of old-age and survivors protection from which they expect to draw benefits. The OASI payroll taxes, like the unemployment compensation payroll taxes, are for specific, not general, purposes. When there is an excess of income the Government borrows from either one or both systems thus relieving it of having to borrow corresponding amounts from

the public. Taxes must obviously be raised to service these borrowings no matter who holds them, and such taxes cannot properly be considered as similar to the special purpose contributions to the OASI or UC systems.

The ownership of the bonds by the OASI system is obviously advantageous. The interest paid on them can be used for OASI purposes. If the bonds were held by the public the interest would still have to be raised. Had they not been owned by the OASI trustees, the time would have come when the payroll taxes would have had to be increased or a Government subsidy provided to take the place of the interest which would not be received. The double taxation claim is just as invalid as the claim that the OASI trust fund is a fiction.

In thus apparently coming to the defense of the "reserve" I would not have anyone think that I am in favor of large OASI reserves; for I certainly am not. Large reserves and the large excess of income over outgo which causes them, are a temptation to enlarge benefits to a level which in time could cause the program to collapse because of its colossal weight. Our program is vulnerable because we are postponing to the future the culmination of the real benefit load. Hence it appears now to be deceptively cheap, and gives people the idea that the benefit level could be materially raised without doing any damage. The difficulty is that we are not handling the old-age security problem as a unit under 1 program, but rather under 2 competing programs. That is one of the basic reasons for the United States Chamber of Commerce proposal which would unify the program, and put the costs, insofar as the Federal Government is concerned, into one system. I am for a reasonable contingency reserve in the OASI system; say not in excess of three times annual benefits after the system has matured. In the meantime, I would not want to go much beyond the present reserve of \$18 billion. I certainly am not for a full actuarial reserve which could easily run into extremely large figures, possibly between \$200 and \$300 billion.

Speaking of costs I might refer to the most recent estimates of the costs of the OASI program. Using the "high cost" data employed by the actuaries of the Social Security Administration, the costs by the year 2000 will be equivalent to 8.42 percent of payrolls. Using the "low cost" data the figure becomes 6.29 percent. Some day, of course, the country will have to decide whether or not a load as heavy as that can be carried by payroll taxes. The current cost is deceptively low because it takes so long for the benefit load to build up under the present program which does not include millions of retired old people. We are asking our children to carry a burden which we seem unprepared to assume. Herein lies a real danger because it is easy to increase benefits currently with the additional heavy burden of cost postponed to the future. This is one of the things which the United States Chamber of Commerce proposal would help to correct.

As you know President Eisenhower recommends that the payroll taxes be "frozen" for 1954 at the present total 3 percent rate for employed persons, and at the 2¼ percent rate for the self-employed. With \$18 billion in the reserve and the prospects of a thoroughgoing review of the whole OASI program next year this appeals to me as a wise move. Certainly the criticism that the Government needs the revenue is unsound. As we have seen, these OASI taxes are in reality special purpose contributions. If the Government gets them for general purposes it does so by borrowing and increasing the Government debt. The sooner we discard any notion that these taxes are general purpose revenue the better for all concerned.

OASI NOT A SAVINGS PLAN

There is a widespread fallacy in connection with the OASI program which stems from the way the original program was set up in 1935. It is that it is similar to a savings or annuity plan under which the payroll taxes people pay are accumulated to provide on an individual basis for the benefits to be received. Years hence, when persons will have been paying into the system ever since they entered the labor market at say age 18 or 20, they may think they are in a savings plan. But, that idea would soon be dispelled if anyone computed what the savings for all such people would amount to. It would be a staggering sum, far, far in excess of anything in the OASI trust fund.

What then would have happened? Simply that current payroll taxes were being used to pay current benefits. For example, today an elderly person, after paying payroll taxes of \$81 can qualify for old-age benefits of \$85 a month, worth at the time it starts at age say 65 about \$10,400 in present value. If he has a wife also age 65 the benefits become \$127.50 a month and have a present value

of about \$16,900. How is such a plan possible? Obviously by using the contributions of others in the system to pay the benefits.

The essence of the OASI program is this: It is a system under which workers pay taxes (contributions) which to an overwhelming extent are used to pay current benefits, graded in a specific manner to correspond to the average wages of the beneficiaries. In return for these contributions the program contemplates that those now making them will, in due course, receive corresponding benefits later on when they need them; such benefits to be paid out of the then current contributions of the working population of that day. Once the fallacious savings concept is abandoned and the true nature of the program is grasped, then the proposals to putting the program on a sounder basis will be more easily understood.

This leads us directly into consideration of the proposal of the Chamber of Commerce of the United States that the present retired "unprotected" aged be brought into the OASI program. Simultaneously the OASI payments to this group would replace all or a very large part of the Federal grants to the States under the old-age assistance program. This would to a large extent remove the present competition between the two programs. Such competition was not intended when the dual program was set up in 1935. It was then anticipated that as the OASI program took over the pension burden, the OAA program would correspondingly diminish. In the light of what has happened this anticipation failed to foresee and appraise the political forces that would manifest themselves in the OAA program.

At any rate, the OAA payments in many States have gone far beyond the OASI benefits. It doesn't make sense to have a system of free grants exceeding the benefits under a contributory one. If individual States wish to supplement OASI benefits by free grants they have the right to do so. But the present plan of grants-in-aid by the Federal Government to the States, with its inducement to shift more and more of the burden to the Federal Government is not sound. It leads in the direction of destroying the contributory plan, and after that to the adoption of some form of Townsendism with its level benefits paid as a matter of right, and probably the imposition of taxes which would be a serious threat to our free economy.

As we have seen, current benefits under the OASI program, to an overwhelming degree, are being paid to current beneficiaries, out of current taxes being paid by those now working. Doing the same thing for the unprotected old people who have retired is simply a matter of degree. It would recognize the basic principle that the old-age problem is a unified one which should not make a sharp dividing line between those now included in the program and those who have not had a chance to participate in it. As stated before, the OASI program is basically one in which current benefits are paid from current taxes (contributions) and will always continue to be so unless a full actuarial reserve program with its huge accumulation should be adopted—something which it is safe to say never will occur.

There are many practical problems involved in the adoption of the United States Chamber program. However, they should be carefully considered and steps taken as they are solved. The presentation of the program has already benefited the country by stimulating more careful consideration of its old-age protection problem, and a clearer understanding of its true nature.

CONCLUSION

In conclusion I would say a few words to those who dislike and fear the possible consequences of our Government's entry into the social-insurance field. As already indicated, I am one who feels deeply that the level of social-insurance benefits must be kept within proper bounds lest the system get out of hand and become a means of perpetuating a political party in power. Once entrenched, the Executive would use social insurance to enslave the people. Hitler's control of the German social-insurance system enabled him to force individuals to conform to his program. Those who deviated stood to lose their benefits. In social insurance we are therefore dealing with something that could become an instrument of dictatorship.

Facing facts however, social insurance is an actuality in this country and is strongly entrenched in the minds of the people. It was put on the statute books in the great depression by the overwhelming vote of both parties in Congress. The people of this country had seen the hardships which severe, prolonged unemployment could inflict on millions who lost their jobs and their savings

through no fault of their own. It was especially hard on the old people, as well as on their children who frequently lost their sources of livelihood also. The peoples' representatives in Congress turned to social insurance in an attempt to mitigate such conditions in the future. The plan has been accepted by the rank and file. I doubt that any legislator could long remain in office if he advocated abolishing unemployment compensation, or taking away from the Federal Government the responsibility for some form of old-age protection available without resort to a means test.

Like it or not, social insurance is a byproduct of our industrialization with its concentration of population in crowded cities, dependent upon cash wages. When the industrial system can slow down and throw millions out of work, people who have the right to vote are not going to sit by helplessly. They will follow the political leadership which promises social-insurance protection. To me that is axiomatic, one of the fixed quantities in the equation. Hence, I believe it to be the duty of all who see the dangers in an unsound development of social insurance to do what they can to hold it within safe bounds.

XII. MEMORANDUM—INTEGRATING THE STATUTORY PROVISIONS AND THE REGULATIONS PERTAINING TO TITLES I, II, AND IV OF THE SOCIAL SECURITY ACT, AS AMENDED

Prepared at the request of the chairman of the subcommittee, under the direction of James P. Radigan, Jr., Chief, American Law Division, Legislative Reference Service, Library of Congress (November 25, 1953)

OLD-AGE AND SURVIVORS INSURANCE¹

PART I—COVERAGE AND BENEFITS

I. EMPLOYMENT

A. COVERED EMPLOYMENT

The term "employment" as currently used in the old-age and survivors insurance provisions of the Social Security Act means any service of whatever nature performed on or after January 1, 1951—

1. By an employee for the person employing him, irrespective of the citizenship or residence of either, (i) within the United States (i. e., within any of the States, the District of Columbia, the Territory of Alaska or Hawaii, the Virgin Islands, or Puerto Rico), or (ii) on or in connection with an American vessel or an American aircraft under a contract of service which is entered into within the United States or during the performance of which and while the employee is employed on the vessel or aircraft it touches at a port in the United States, if the employee is likewise employed on or in connection with such vessel or aircraft when outside the United States, or

2. Outside the United States by a citizen of the United States as an employee of an individual who is a resident of the United States, of a partnership, if two-thirds or more of the partners are residents of the United States, of a trust, if all of the trustees are residents of the United States, of a corporation organized under the laws of the United States or of any State, or in very limited circumstances, of the United States or any instrumentality thereof, or a State or any political subdivision thereof. (42 U. S. C. 410 (a).)

Further qualifications are provided with respect to—

1. Services performed outside the United States on or after January 1, 1951, services "on or in connection with" an American vessel or an American aircraft outside the United States must fulfill the following requirements in order to be covered employment:

(a) The employee is employed on and in connection with such vessel or aircraft when outside the United States;

(b) The services are performed under a contract entered into within the United States, or during the performance thereof, though the con-

¹ Title II.

tract was entered into outside the United States, the vessel or aircraft touches at a United States port; and

(c) The services are not excepted from coverage as being a form of fishing, such as the catching, taking, harvesting, cultivating, or farming, of any kind of fish, shellfish (oysters, clams, mussels), crustacea (lobsters, crabs, and shrimp), sponges, seaweeds, or other aquatic forms of vegetable and animal life.

Services must be performed on the vessel or aircraft, e. g., as officers or members of the crew, or as employees of concessionaries; or they must be performed in connection with the vessel or aircraft, e. g., shore services performed by officers or members of the crew, or as employees of concessionaires of the vessel.

If the contract of service is not made in the United States, and the vessel, during the period of employment does not touch a United States port, such services shall not be covered employment, though similar services performed at the same time, but under contracts or circumstances fulfilling other requirements for coverage, are covered employment.

Defines "American vessel" as any vessel documented (that is registered, enrolled, or licensed) or numbered in conformity with the laws of the United States. It also includes a vessel not so registered or documented, in the United States or elsewhere, if the crew of such vessel is employed solely by one or more citizens (including corporations) or residents of the United States.

In connection with service "on or in connection with" an American vessel or aircraft, the citizenship or residence of the employee is immaterial, and the citizenship or residence of the employer is material only in case it has a bearing in determining whether a vessel is an American vessel.

2. Services by a United States citizen for an American employer. All services, except those expressly excepted from the definition of the term employment under the OASI provisions of the Social Security Act, shall constitute covered employment if performed outside the United States by a citizen of the United States as an employee for an American employer. "Citizen of the United States" includes a citizen of the Virgin Islands or of Puerto Rico.

An American employer is defined as (1) the United States or any instrumentality thereof; (2) a State or political subdivision thereof; (3) an individual who is a resident of the United States, i. e., the States, the District of Columbia, the Territories of Hawaii and Alaska, the Virgin Islands, and Puerto Rico; (4) a partnership if two-thirds or more of the partners are residents of the United States; (5) a trust, if all of the trustees are residents of the United States; or (6) a corporation organized under the laws of the United States, or any State (including the District of Columbia, the Territory of Alaska, or Hawaii, the Virgin Islands, or Puerto Rico). [20 CFR 404, 1003.]

An employer generally is one who employs one or more employees. Neither the number of employees nor the period during which they are employed is material in the determination of employer under the OASI provisions. An employer may be an individual, a corporation, a partnership, a trust, an estate, a joint-stock company, etc. The nature of the services by the employee determines whether such services constitute employment under the act. [20 CFR 404, 1005.]

B. PARTIAL EXCEPTIONS FROM COVERED EMPLOYMENT

1. *Agricultural labor*

(a) On a farm, in the employ of any person, in cultivating the soil or raising or harvesting an agricultural or horticultural commodity, caring for livestock, bees, poultry, fur-bearing animals, and wildlife.

(b) In the employ of the owner or tenant or other operator of a farm, in connection with any managerial, operational, or maintenance activities.

(c) In connection with operating or maintaining ditches, canals, reservoirs, etc., not owned or operated for profit, used exclusively for supplying and storing water for farming purposes.

(d) (1) In the employ of the operator of a farm in preparing the agricultural or horticultural commodity for market while it is in its unmanufactured state, but only if such operator produced more than one-half of the commodity with respect to which such service is performed.

(2) In the employ of a group of operators (other than a cooperative) for the purpose in (a) above, but only if such operators produced all of the commodity being processed. Any group of operators comprising 20 or more members shall be considered a cooperative organization. Canning or freezing performed after delivery to a terminal market shall not be considered such covered employment.

(e) Service on a farm operated for profit though not in the course of an employer's trade or business, or if domestic service in a private home of the employer.

These types of agricultural labor will be covered if the remuneration in any calendar quarter is \$50 or more and such labor is performed by an employee who is regularly employed by such employer to perform agricultural labor.

In the administration of the provisions regarding covered agricultural employment under the OASI, agricultural activities have two major divisions:

1. Agricultural activities which are completely excepted from coverage under the act no matter where performed. These are services in connection with the production or harvesting of crude gum (oleoresin) from a living tree or the processing of such crude gum into gum spirits of turpentine and gum resin if carried on by the original processor; or services in connection with the ginning of cotton.

2. Services which are covered only where the remuneration is \$50 or more in the calendar quarter, and such employee is regularly employed in such calendar quarter to perform such labor. Both tests must be met.

The \$50 qualification is based on remuneration earned rather than paid, and such remuneration must be in cash or check or other monetary media of exchange. To be deemed regularly employed, the person must—

1. Perform agricultural labor on a full-time basis on at least 60 days during such quarter, i. e., any full day on which he performs such labor or is paid for it, though not performing services by reason of sickness or vacation;

2. The calendar quarter must be immediately preceded by a qualifying quarter. A qualifying quarter may be (1) either a preceding quarter (no earlier than the last quarter of 1950) in which the employer-employee relationship exists, though not necessarily because of agricultural work, or (2) any subsequent quarter in which less than 60 days agricultural work is performed if it is immediately followed by a quarter in which 60 full days of such labor is performed.

The presumption of regular employment, established under (1) or (2) above, carries forward into the next succeeding calendar quarter though it would not otherwise be a quarter of covered employment.

In addition to the activities mentioned in the law, certain services, such as harvesting maple sap, harvesting mushrooms, hatching poultry, etc., constitute agricultural labor, but only if performed on a farm. Forestry, lumbering, and landscaping are not considered to be agricultural services. [20 CFR 404, 1008.]

2. *Service not in the course of employer's trade or business*

Services not in the course of the employer's trade or business performed in the calendar quarter are exempt from coverage unless both of the following two tests are met:

1. The remuneration for such services in the calendar quarter is over \$50;

2. The employee is regularly employed in the quarter by such employer, that is, such work has been performed on at least 24 days in the calendar quarter, a day being considered any day or portion thereof on which such services are performed, or for which the employee is paid although ill or on vacation.

Such services must not promote or advance the trade or business of the employer. The \$50 must be in cash or check or other monetary media of exchange and must be earned during the quarter and paid at some time, though not necessarily during the quarter in which the services were performed. Services not in the course of the employer's trade or business performed on a farm operated for profit, domestic service in a private home of the employer performed on a farm operated for profit, and domestic service in a private home of the employer performed other than on a farm operated for profit are not within the exception. [20 CFR 404, 1010.]

3. *Services performed for an instrumentality of the United States not subject to employer tax on December 31, 1950*

This exemption is not applicable to—

1. Service performed in the employ of a corporation which is wholly owned by the United States;

2. Service performed in the employ of a national farm loan association, a production credit association, a Federal Reserve bank, or a Federal credit union;

3. Service performed in the employ of a State, county, or community committee under the Production and Marketing Administration (see "5" following);

4. Service performed by a civilian employee, not compensated from funds appropriated by the Congress, in the Army and Air Force Exchange Service, Army and Air Force Motion Picture Service, Navy Exchanges, Marine Corps Exchanges, or other activities, conducted by an instrumentality of the United States subject to the jurisdiction of the Secretary of Defense, at installations of the Department of Defense for the comfort, pleasure, contentment, and mental and physical improvement of the personnel of such Department.

The exemption granted by the act for instrumentalities not subject to the tax on December 31, 1950, extends to instrumentalities of the United States created since that date, under laws in effect on December 31, 1950, which grant a like immunity. [20 CFR 404.1013 (e).]

4. Services performed in the field service of the Post Office Department under certain temporary appointments

Ordinarily, field service in the Post Office Department is exempt from employment under the OASI, but if the person who performs the services is excluded by Executive order from the operation of the Civil Service Retirement Act because he is serving under a temporary appointment pending final determination of eligibility for permanent or indefinite appointment, he is in covered employment. [20 CFR 404.1013 (c) (3).]

5. Services as a member of a State, county, or community committee under the Production and Marketing Administration

These services, together with services on any other board, council, committee, or similar body under the Production and Marketing Administration, are excepted unless such board, council, committee, or other similar body is composed exclusively of individuals otherwise in the full-time employ of the United States, as noted in (3) supra. [20 CFR 404.1013 (c) (12).]

6. Services performed for a religious, educational, or other institution, exempt from income tax.

Services for such a nonprofit organization are exempt from employment under the OASI unless—

1. There is a certificate filed by such organization, signed by two-thirds of its employees, consenting to have such services covered under the OASI. If such certificate is filed, persons who become employees of such organization after the date of the filing of such certificate are also covered.

2. The remuneration for such services is more than \$50 in the calendar quarter. This exception applies separately with respect to each organization for which the employee renders services in a calendar quarter. [20 CFR 404.1018.]

7. Fishing

Generally, services performed by a person in the taking, catching, harvesting, cultivating, or farming of any kind of fish, shellfish (oysters, clams, mussels), crustacea (lobsters, crabs, and shrimp), sponges, seaweeds, or other aquatic forms of vegetable and animal life are excepted. Commercial fishing for halibut and salmon, and fishing from vessels of more than 10 net tons are covered employment.

C. EXCEPTIONS FROM COVERED EMPLOYMENT

1. Services in connection with oleoresinous products and ginning cotton

The production or harvesting of crude gum (oleoresin) from a living tree, or the processing of such crude gum into gum spirits of turpentine and gum rosin, irrespective of the place where such process is carried on provided it is carried on by the original producer is considered an agricultural activity but is excepted from covered employment. The ginning of cotton is also an excepted agricultural occupation. [20 CFR 404.1008(a).]

2. Foreign agricultural workers

Services performed by foreign agricultural workers under contracts entered into in accordance with arrangements between the United States and the Republic of Mexico are excepted service.

3. Domestic service performed in a local college club, etc., by a student

The statutory tests provide that the student must be enrolled and regularly attending classes, and that the service must be domestic service in a college club or local chapter of a college fraternity or sorority. This is amplified as follows: (a) the exception does not apply to an alumni club or chapter, nor (b) does it apply to club or chapter which uses its premises to supply board and room to the students or the public on a business basis. [20 CFR 404.1009.]

4. Family employment

Certain services are excepted from coverage because of a family relationship between the employer and the employee. These are—

- (a) Service by an individual for his or her spouse;
- (b) Service by a father or mother for a son or daughter;
- (c) Service by a son or daughter under 21 in the employ of his or her father or mother.

Services performed for a corporation (composed of family members) are not within the exception. They are within the exception if performed for a partnership where the requisite family relationship exists between the employee and each of the employers. [20 CFR 404.1011.]

5. Service on a vessel not American

Service performed by an individual on or in connection with a vessel not an American vessel, or on or in connection with an aircraft not an American aircraft, if the individual is employed on and in connection with such vessel or aircraft when outside the United States.

6. Service for the United States or an instrumentality thereof

There are three instances of this exception:

(a) The first instance provides an exception from OASI coverage because the employees are covered in under another retirement system, such as civil service retirement, Armed Forces retirement, etc. The test is in this instance whether the employee is covered by a retirement system of requisite character, not whether the position, as such, is covered. Since some of the retirement systems give the employee an option to be covered, this test is pertinent. [20 CFR 404.1013 (a).]

(b) The second instance concerns service excepted because the Congress has granted a specific exemption from employment tax to such instrumentality. This exception is explained in B, 3, *supra*.

(c) Certain special classes of services, such as—

(1) President, or Vice President of the United States, or as a Member, Delegate, or Resident Commissioner, of or to the Congress;

(2) In the legislative branch;

(3) In the field service of the Post Office Department (except as in B, 4, *supra*);

(4) In or under the Bureau of the Census of the Department of Commerce by temporary employees employed for the taking of any census;

(5) By any individual as an employee who is excluded by Executive order from the Civil Service Retirement Act of 1930 because he is paid on a contract or fee basis;

(6) By any individual as an employee receiving nominal compensation of \$12 or less per annum;

(7) By a patient or inmate of any hospital, home, or other institution of the United States;

(8) By an individual as a consular agent appointed by the Secretary of State;

(9) By an individual as a student employee of a Federal hospital (interns, student nurses, and other) exempt from the Classification Act of 1949;

(10) By an individual as an employee serving on a temporary basis in case of fire, storm, earthquake, flood, or other similar emergency; and

(11) As a member of a State, county, or community committee under the Production and Marketing Administration, except as noted in B, 5, *supra*.

7. Service for a State or an instrumentality thereof

Unless there is a voluntary agreement for coverage, or such service is covered transportation service, each of which is under other provisions of the Social Security Act, such service is excepted from coverage.

8. Common carriers subject to Railroad Retirement Act

The services of both employees and employee representatives performing services under the Railroad Retirement Tax Act provisions are excepted from covered employment under the OASI.

9. Services by ministers, etc.

Service performed by a duly ordained, commissioned, or licensed minister of a church in the exercise of his ministry or by a member of a religious order in the exercise of duties required by such order are excepted from OASI.

10. For a school by a student thereof

Whether or not such a school is tax exempt, the services of a regularly enrolled student are excepted from covered employment. The amount of remuneration, the type of services, and the place where the services are performed are immaterial. The tests are (a) the character of the organization for which the services are performed, and (b) if the student is regularly enrolled in the school, etc., for which he works. [20 CFR 404.1019.]

11. For a foreign government

The services of diplomatic, and other employees of similar status, of foreign governments are excepted from coverage. This exception applies whether or not such foreign government extends the same exception to similar services performed in foreign countries by American citizens. [20 CFR 404.1020.]

12. For an instrumentality wholly owned by a foreign government

Three requirements are necessary for this exception to hold:

- (a) The instrumentality must be wholly owned by a foreign government;
- (b) The services must be similar to those performed in a foreign country by citizens of the United States; and
- (c) The Secretary of State must certify that a similar exception is granted to such American citizens by the foreign country requesting it here.

13. Student nurses and interns

Services performed by a regularly enrolled student nurse in a hospital are excepted from covered employment as are services performed by an intern, as distinguished from a resident doctor, if the intern has completed a 4 years' medical course in a recognized medical school.

14. Fishing

All fishing activities except those noted in B, 7, supra.

15. Newspaper distribution

These are divided on an age basis:

- (a) Services by those under the age of 18, except if they are regional distribution for further distribution, of newspapers, shopping news, handbills, etc., are excepted no matter what the system of remuneration;
- (b) Services by those of any age in the sale of newspapers or magazines to an ultimate consumer, where the remuneration consists of the difference between what such person receives and what he has paid for such papers, are excepted from employment. This exception holds whether a minimum guaranty is made to the employee, or papers or magazines are accepted back if unsold. However, this may be subject to self-employment tax provisions.

16. Services for international organizations

Services for an international organization are excepted if (a) such organization is a public international organization, membership in which has been accepted by the United States in accordance with treaty or authority of an act of Congress; (b) it has been designated by the President in an Executive order as coming under the International Organizations Immunities Act; and (c) the designation must be in effect and all conditions and limitations met. [20 CFR 404.1025.]

D. VOLUNTARY AGREEMENTS FOR COVERAGE OF STATE AND LOCAL EMPLOYEES**1. Nature of agreement**

Any State (except the District of Columbia) may request the Secretary of the Department of Health, Education, and Welfare to enter an agreement with the State for the purpose of extending to certain employees of the State and its political subdivisions (including instrumentalities) protections accorded other

employees by the old-age and survivors insurance system embodied in the Social Security Act. Requirements imposed on States shall, as far as practicable, be the same as those imposed on other employers.

When an instrumentality of two or more States so requests, the Secretary may enter an agreement to extend the insurance system to services performed by individuals as employees of such instrumentality. As far as practicable the agreement shall be governed by the provisions applicable in case of agreement with a State.

2. *Employees covered*

A "coverage group" refers to (a) employees of the State *not* performing services in connection with a proprietary function; (b) employees of a political subdivision of a State *not* performing services in connection with a proprietary function; (c) employees of a State performing services in connection with a *single* proprietary function; or (d) employees of a political subdivision of a State performing services in connection with a *single* proprietary function. An employee may belong to more than one coverage group but shall be included in only one group for social-security purposes. The determination of the coverage group in which an employee shall be included shall be in a manner specified in the agreement.

3. *Services covered*

A State can make an agreement to apply to any one or more of the coverage groups and all services performed by individuals as members of a coverage group under an agreement must be included *with these exceptions* (at the option of the State):

(a) Services of an emergency nature or services in any class(es) of elective positions, part-time positions or positions for which compensation is on a fee basis;

(b) Any agricultural labor or service performed by a student which is also excluded from the definition of employment for the purpose of the Social Security Act.

The agreement must *exclude* the following:

(a) Service performed by an individual who is employed to relieve him from unemployment;

(b) Service performed in a hospital, home, or other institution by a patient or inmate;

(c) Covered transportation service;

(c) Covered transportation service;

(d) Service (other than agricultural labor or service performed by a student) which is excluded from the definition of employment for the purpose of this act;

(e) Services performed by employees in positions covered by a retirement system.

The Secretary, at the request of any State, shall modify the agreement so as to include (1) any coverage group to which the agreement did not previously apply or (2) services within a coverage group previously excluded. The modification may not be inconsistent with provisions applicable to an original agreement.

4. *Payments and reports by States*

The agreement shall provide:

(a) That the State will pay to the Secretary of the Treasury the tax imposed on employers and employees based on wages paid if services of the employees are of a nature subject to employment tax;

(b) That the State will comply with regulations relating to payments and reports as the Secretary may prescribe.

5. *Commencement and termination of agreement*

(a) *Effective date of agreement.* The effective date with respect to coverage of services performed by State employees will be the date specified in the agreement. This date cannot in any case be prior to January 1, 1951. Agreements or modifications cannot be effective prior to the first day of the calendar year in which made unless such agreement was made prior to January 1, 1954.

(b) *Termination of the agreement—*

(1) *By the State.*—A State may terminate an agreement (effective at the end of a calendar quarter specified) by giving at least 2 years advance notice in writing to the Secretary. The agreement may be canceled in its entirety

or in respect to any coverage group provided the agreement has been in effect for at least 5 years.

(2) *By the Secretary.*—When the Secretary finds that the State can no longer comply substantially with requirements of the agreement or of this act, he may (after reasonable notice and opportunity for hearing) terminate the agreement in its entirety or with respect to one or more coverage groups. The date of termination will not be later than 2 years from the date of notice. If the cause for the State's inability to comply is removed notice of termination may be withdrawn.

When an agreement is terminated in its entirety another agreement may not be entered into. If the termination is effective only as to any coverage group(s) the agreement cannot be modified later to include such group(s).

6. *Deposits in the trust fund and adjustments*

All amounts received by the Secretary of the Treasury from the States under these agreements will be deposited in the trust fund. Adjustments shall be made, without interest, with respect to any incorrect amounts paid under these agreements. If an overpayment cannot be adjusted, certification will be made by the Secretary to the managing trustee and payment will be made through the Fiscal Service of the Treasury Department. The managing trustee shall not be held personally liable for any payment(s) made in accordance with certification by the Secretary.

7. *Failure to make payments or returns*

When a State does not make payment or file returns when due an interest charge of 6 percent is added from the date due until paid. The Secretary may, in his discretion, deduct unpaid amounts and interest from amounts certified for payment to the State. The amounts deducted shall be deemed to have been paid to the State. Amounts equal to the amounts deducted are appropriated to the trust fund.

8. *Delegation of Secretary's functions*

The Secretary is authorized, pursuant to agreement with the head of any Federal agency, to delegate any of his functions in this section to any officer or employee of such agency and to utilize the services and facilities of such agency in carrying out these functions. Payment for use of facilities may be in advance or by way of reimbursement. [42 U. S. C. A. 418; 20 CFR, ch. III (M).]

E. COVERED TRANSPORTATION SERVICE

All service performed after December 31, 1950, in connection with the operation of a transportation system by a State or political subdivision, or any combination thereof, if any part of the system was acquired from private ownership after 1936 and prior to 1951, shall be covered employment service unless there is a provision in the State constitution for a general retirement system, granting benefits which are protected from diminution or impairment by such provision. A general retirement system is defined to mean one applicable to various types of State, etc., employees and not just to all those in the transportation services.

When an addition is made after 1950 to any transportation system acquired within the operative dates above, it shall become covered transportation service on the first day of the third calendar quarter after its acquisition, unless exempted because under the coverage of a State retirement system as noted in the preceding paragraph.

The coverage extends to an employee of such a transportation system if he became an employee of the State in connection with or at the time of the change from private to State ownership, and had been working for the transportation system acquired by the State or one of its political subdivisions.

All service performed for a transportation system in operation on December 31, 1950, by a State or political subdivision, no part of which is acquired after 1936 or before 1951, shall constitute covered transportation service. Additions to such system shall become covered transportation service on the first day of the third quarter after acquisition, and employees shall become covered employees under the same conditions as noted in preceding paragraphs.

All service performed for a public transportation system acquired by a State or political subdivision after 1950 is covered transportation service unless a State constitutional provision for a general retirement system prevents such coverage. [42 U. S. C. 410 (1).]

Definitions

1. "General retirement system" means any pension, annuity, or other fund or plan established by a State or political subdivision, or both, for its employees. It does not mean a system applicable only to public transportation employees.

2. A transportation system or any part thereof is considered to have been acquired from private ownership if prior to the acquisition its employees were engaged in covered employment under the Social Security Act, or were covered by a voluntary agreement between the State and the Secretary of Health, Education, and Welfare, and some of its employees became employees of the State at the time of acquisition.

3. "Political subdivision" includes instrumentalities of the State, of one or more subdivisions of the State, or of the State and one of its subdivisions.

4. "Employment" includes service covered by an agreement between the State and the Secretary of Health, Education, and Welfare. [20 CFR 404.1014 (b).]

F. EMPLOYEE

The term "employee" means—

1. Any officer of a corporation; the determination of whether an officer of a corporation is an employee. Usually such a person is an employee, but if he does not perform any services, or he performs only minor services, and is not entitled to receive, directly or indirectly, any remuneration, he is not considered an employee of a corporation. Directors, as such, are not considered employees.

2. Any individual who, under the usual common-law rules applicable in determining the employer-employee relationship, has the status of an employee; a determination of whether a person comes within the common-law definition of employee. He is held to be in such relationship where the employer controls not only the end to be obtained but also the means of accomplishing it. Other factors considered are the right to discharge, the furnishing of tools, the furnishing of a place to work. Where there is doubt, the relationship will be determined by the facts of the particular case.

Persons over whom control is exercised only as to the result, but not as to the means, are considered independent contractors. Individuals, such as physicians, lawyers, construction contractors, public stenographers, etc., engaged in the pursuit of an independent trade, business, or profession are considered independent contractors.

3. Any individual (other than one in the foregoing classifications) who performs service as—

(a) An agent-driver or commission-driver engaged in distributing meat, vegetable, fruit, or bakery products, beverages (other than milk), or laundry or dry-cleaning services, for his principal; this includes an individual who operates his own truck or the truck of the person for whom he performs services, serves customers designated by such person as well as his own, and whose compensation is a commission or the difference between price charged and price received on his sales;

(b) A full-time life-insurance salesman that is an individual whose entire or principal business activity is devoted to the solicitation of life insurance or annuity contracts, or both, primarily for one life-insurance company;

(c) A homemaker, that is an individual who performs services off the premises of the person for whom the services are performed, if such performance is licensed under the laws of the States (including the District of Columbia, the Territories of Hawaii and Alaska, the Virgin Islands, and Puerto Rico) either through a homework license granted to the employer, or a homework certificate held by the employee, and receives pay of over \$50 a quarter;

(d) As a traveling or city salesman, other than as an agent, or commission driver, engaged on a full-time basis in the solicitation and transmission of orders (except for sideline sales on behalf of another) from wholesalers, retailers, contractors, or operators of hotels, restaurants, or other similar establishments for merchandise for resale or supplies for use in their business operations. [42 U. S. C. 410k.]

Generally, if the relationship of employer and employee exists, the name used to denote it is immaterial, and, moreover, all classes or grades of employees are included within the relationship. Further, though a person may fulfill the requirements for the relationship of employee under these regulations,

he may be exempted from the coverage under OASI because of noncompliance with one or some other statutory provisions. [20 CFR 404.1004.]

There are contained in the law certain further qualifications governing the intent of the contract of services (whether formal or informal) as to the amount of time devoted to the principal's business, the amount invested by the employee in facilities used in connection with the performance, and whether such services constitute a continuing relationship.

G. OTHER DEFINITIONS

1. *Included and excluded service*

The determination whether all the services for which an employee receives payment during a pay period shall be treated alike, that is, either all considered to be employment or all excluded from employment under the act will depend on whether the employee has worked for more than one-half of any pay period in covered service. This determination will not apply where any of the services concerned are those of an employee or employee representative for a common carrier. [42 U. S. C. 410 (b).]

A pay period is defined as not more than 31 calendar days, or any period of uniform duration less than that for which a payment is ordinarily made. If there are variations in the actual payment time, the uniform period will govern.

No determination shall be made under this provision (1) if the periods vary so greatly that there is no period for which a payment of remuneration is ordinarily made, (2) if the ordinary period exceeds 31 days, or (3) where part of such service is performed for a common carrier.

Whenever an employer pays an employee remuneration, to which the rules under this section do not apply, the tax shall attach to such services as would otherwise be subject to employment tax. [20 CFR 404.1007.]

2. *American vessel*

An "American vessel" is defined as any vessel documented (that is registered, enrolled, or licensed) or numbered in conformity with the laws of the United States. The term also includes a vessel not so registered or documented in the United States or elsewhere, if the crew of such vessel is employed solely by one or more citizens (including corporations organized under the laws of the United States or any State) or residents of the United States. [42 U. S. C. 410 (c).]

In connection with the above, the citizenship or residence of the employee is immaterial, and the citizenship or residence of the employer is material only in case it has a bearing in determining whether a vessel is an American vessel. [20 CFR 404.1003 (c) (1) (v) (viii).]

3. *American aircraft*

The term "American aircraft" means an aircraft registered under the laws of the United States. [42 U. S. C. 410 (d).]

An aircraft includes every description of craft or other contrivance, used as a means of transportation through the air. The term "airport" means an area on land or water used regularly for receiving or discharging passengers or cargo.

In connection with the above, the citizenship or residence of the employee is immaterial, and the citizenship or residence of the employer is material only in case it has a bearing in determining whether an aircraft is an American aircraft. [20 CFR 404.1003 (c) (1) (vi), (vii), (viii).]

4. *American employer*

An American employer is (a) the United States or any instrumentality thereof; (b) a State or political subdivision thereof; (c) an individual who is a resident of the United States (i. e., the States, the District of Columbia, the Territories of Hawaii and Alaska, the Virgin Islands, and Puerto Rico); (d) a partnership if two-thirds or more of the partners are residents of the United States; (e) a trust, if all of the trustees are residents of the United States; or (f) a corporation organized under the laws of the United States or any State (including the District of Columbia, the Territory of Alaska, or Hawaii, the Virgin Islands, or Puerto Rico). [42 U. S. C. 410 (e); 20 CFR 404.1003 (c) (2) (iii).]

5. *Agricultural labor*

This section of the act defines agricultural labor without reference to the exceptions and conditions imposed under 42 U. S. C. 410 (a) (covered employ-

ment). In order to have uniformity, however, the following summary will note whether such services are covered under agricultural labor or not.

(a) The following are agricultural activities which are exempted from coverage under the act: Services in connection with the harvesting or production of crude gum (oleoresin) from a living tree, and gum-spirits of turpentine and gum rosin derived therefrom if processed by the original producer; and services performed in connection with the ginning of cotton. [42 U. S. C. 410 (f).]

(b) The following are agricultural services which are covered under the act provided that 60 days in such service have been performed in any quarter and the pay therefor was \$50 or more—

(1) On a farm, in the employ of any person, in connection with cultivating the soil, or in connection with raising or harvesting any agricultural or horticultural commodity, including the raising, shearing, feeding, caring for, training, and management of livestock, bees, poultry and fur-bearing animals and wildlife;

(2) In the employ of the owner or tenant or other operator of a farm, in connection with the operation, management, conservation, improvement, or maintenance of such farm and its tools and equipment, or in salvaging timber or clearing land of brush and other debris left by a hurricane, if the major part of such service is performed on a farm;

(3) In connection with the operation or maintenance of ditches, canals, reservoirs, or waterways, not owned or operated for profit, used exclusively for supplying and storing water for farming purposes;

(4) (a) In the employ of the operator of a farm in handling, planting, drying, packing, packaging, processing, freezing, grading, storing, or delivering to storage or to market or to a carrier for transportation to market, in its unmanufactured state, any agricultural or horticultural commodity; but only if such operator produced more than one-half of the commodity with respect to which such service is performed.

(b) In the employ of a group of operators of farms (other than a cooperative organization) in the performance of service described in subparagraph (a) of this paragraph, but only if such operators produced all of the commodity with respect to which such service is performed. For the purposes of this subparagraph, any unincorporated group of operators shall be deemed a cooperative organization if the number of operators comprising such group is more than 20 at any time during the calendar quarter in which such service is performed;

(5) On a farm operated for profit if such service is not in the course of the employers trade or business or is domestic service in a private home of the employer;

The provisions of subparagraphs (a) and (b) of paragraph (4) of this subsection shall not be deemed to be applicable with respect to service performed in connection with commercial canning or commercial freezing or in connection with any agricultural or horticultural commodity after its delivery to a terminal market for distribution for consumption. [42 U. S. C. 410 (f).]

(c) The following are not considered within the definition of the term agricultural services: forestry, lumbering, landscaping, the processing of maple sap into maple sugar or sirup even though performed on a farm. [20 CFR 404.1008 (d).]

6. *Farm*

The term "farm" includes stock, dairy, poultry, fruit, fur-bearing animal, and truck farms, plantations, ranches, nurseries, ranges, greenhouses or other similar structures used primarily for the raising of agricultural or horticultural commodities, and orchards. [42 U. S. C. 410 (g).]

7. *State*

The term "State" includes Alaska, Hawaii, the District of Columbia, and the Virgin Islands; and on and after the date when Puerto Rico determines to be included [January 1, 1951] includes Puerto Rico. [42 U. S. C. 410 (h).]

8. *United States*

The term "United States" when used in a geographical sense means the States, Alaska, Hawaii, the District of Columbia, and the Virgin Islands; and on and after the date when Puerto Rico determines to be included [January 1, 1951] includes Puerto Rico. [42 U. S. C. 410 (i).]

9. *Citizen of Puerto Rico*

An individual who is a citizen of Puerto Rico (but not otherwise a citizen of the United States) and who is not a resident of the United States shall not be considered, for the purposes of this section, as a citizen of the United States prior to the date of inclusion of Puerto Rico [January 1, 1951]. [42 U. S. C. 410(j).]

NOTE.—By the act of April 12, 1900 (31 Stat. 79), all former citizens of Spain residing in Puerto Rico on April 11, 1899, became citizens of Puerto Rico. By act of March 2, 1917, United States citizenship was extended to all Puerto Ricans, except those who affirmatively refused to accept it. These latter were permitted to remain citizens of Puerto Rico.

There are no regulations hereunder.

APPENDIX TO PART I

1. *Definition of "employment" prior to January 1, 1951*

In making any computations under the current law and regulations which require employment periods prior to January 1, 1951, to be considered, services rendered during that period constitute employment if they are within the applicable law and regulations governing (a) services after December 31, 1936, and prior to January 1, 1940, under the law governing at that time and Regulations No. 2; and (b) services after December 31, 1939, and prior to January 1, 1951, under the law governing at that time and Regulations No. 3. [20 CFR 404.1002.]

The first definition of "employment" which was used in the Social Security Act was applicable only to services performed in the United States, except in seven specified categories (49 Stat. 625, sec. 209). These excepted categories were agricultural labor, domestic service in a private home, work not in the course of employer's trade or business, service on a vessel documented under the laws of the United States or a foreign country, service for the United States or an instrumentality thereof, in the employ of a State or an instrumentality thereof, or in the employ of a nonprofit, nontaxable organization.

The original definition was revised and extended in 1939 and as so extended was applicable to years after 1940 (53 Stat. 1373). The basic definition of "employment" was clarified to provide that the citizenship or residence of either employer or employee was immaterial if the work was performed in the United States, or, on or in connection with a vessel where the contract of service was made in the United States or the vessel touched at a United States port and the employee also worked on the vessel outside the United States.

The excepted categories were further refined and extended. Agricultural labor was divided into four descriptive types (a) activities ordinarily considered farming, i. e., cultivating the soil, caring for livestock, etc., (b) managerial activities on and closely connected with a farm, (c) three special types of activities, viz, harvesting maple sap, producing oleoresinous products, and ginning cotton, and (d) certain activities taking place on the farm in preparing farm commodities for market. Domestic service in a private home was considered to include similar work by a regularly enrolled student in a college club. Work for a member of one's immediate family was excepted, but work by a child over 21 for his parents was covered employment. Work performed on a vessel not an American vessel by an employee working on such vessel outside the United States was excepted as were services of persons working for the United States, or for instrumentalities thereof wholly owned or exempt from employment tax. Employment for a State or a similarly construed instrumentality of the State was excepted. Services for nonprofit institutions and for common carriers under the Railroad Retirement Act were excepted, as was employment by a tax exempt organization where the remuneration was less than \$45, or the employee was a regularly enrolled student, or the services were performed away from the home office or in conjunction with a ritualistic observance. Service for government and private nonprofit voluntary benefit associations was also excepted. Excepted also was service for a foreign government, equivalent to consular level, or for a wholly owned institution of a foreign government where the Secretary of State has certified that the foreign government exempted similar service of American employees abroad. Services of student nurses or interns, fishing (unless commercial halibut or salmon fishing or on vessels of over 10 net tons), and service in the final delivery of newspapers by persons under 18 were also exempt.

2. *Definition of "employee" prior to January 1, 1951*

There have been several revisions in the statutory definition of the term "employee." Under the original Social Security Act (49 Stat. 647, sec. 1101 (a) (6))

the finding as to whether a person was an employee was left to administrative and judicial determination, with the exception of corporation officers who were specifically included within the scope of the definition by the Act. Through the intervening years, two theories arose, one that the definition should be interpreted strictly within the common-law rules; the other that it should be wider in scope than the common-law rules allow in order to fulfill what was considered to be the wider intention of the act. In 1948 the conflict was resolved by the incorporation in the act of a statutory definition that was to be interpreted in accordance with the common-law rules (again, however, specifically including corporation officers as employees) (62 Stat. 438, sec. 1). This again proved too narrow and the amendments of 1950, which are the present statutory definition, provided coverage both for relationships that met the common-law tests and by specific enumeration for other relationships that met the common-law tests and specific enumeration for other relationships such as agent-drivers, full-time life insurance salesman, homemaker, traveling or city salesman, etc., that might not fulfill such requirements (64 Stat. 536, sec. 205 (a)). Officers of corporations were continued among the positions covered, subject to the further requirements of the regulations.

II. SOCIAL SECURITY INCOME

A. WAGES

"Wages" as currently defined under the Social Security Act comprise payments received for employment, including the cash value of all remuneration paid in any medium other than cash. In reaching the current determination, however, there are excluded from the remuneration received from employment the following items:

1. Any amount over \$3,600 received in any one year after 1950 for work performed after 1936 from sources other than any of the following further excluded sources;
 2. Amount paid by an employer to or on behalf of his employees (or classes thereof) and/or their dependents to a system or plan covering (a) retirement, (b) sickness or accident disability, (c) medical or hospitalization expenses in connection with sickness or accident disability, or (d) death;
 3. Amounts paid to or on behalf of an employee for retirement though not under a plan or system;
 4. Amounts paid to an employee on account of sickness or accident disability, or medical or hospitalization expenses, if made after 6 months following the month in which the employee last worked and even though not under a plan or system;
 5. Amounts paid to or from a tax exempt retirement trust or annuity plan to an employee or his beneficiary except where the payment is made to the employee as an employee of the trust, etc.;
 6. Amounts paid by an employer without deduction from or reimbursement by an employee (a) as the employee's tax under the Federal employment tax, or (b) the employee's contribution under a State unemployment compensation law;
 7. Payment in kind for work not in the employer's trade or business, or for domestic service in the private home of an employer, or cash less than \$50 a quarter for domestic service in a private home, or payment for irregular domestic employment in such quarter. Regular domestic employment, on the other hand, means working in such service during some portion of 24 days during the calendar quarter, plus service performed over the same number of days during a preceding quarter. Domestic service on a farm operated for profit constitutes covered agricultural service if the pay is \$50 or more during a quarter;
 8. Payment other than cash for agricultural service;
 9. Amounts paid an employee over 65 who is acting as a standby employee unless (a) he actually worked during the period of payment, and (b) such pay is not vacation or sick pay;
 10. Amounts paid to homeworkers (i. e., those doing piecework in their own homes for licensed employers, or upon their own certification) if their pay is less than \$50 a quarter. [42 U. S. C. 409.]
- In the case of domestic service, any payment of cash that is not an even dollar amount shall be rounded off, so that an excess, if less than 50 cents shall be disregarded, and if at or more than 50 cents, increased to the next dollar amount, and the tax shall be applicable to the amount so rounded off.

In the regulations will be found several further important qualifications:

1. "Wages" are further defined as including vacation allowances and all amounts deducted by employers from employees' wages because of the Federal employment tax. [20 CFR 404.1026 (b).]

2. Facilities and courtesies provided by employers, e. g., discounts, etc., and reimbursable travel expenses are not includible in computing wages. [20 CFR 404.1026 (a).]

3. Miscellaneous exclusions from the definition of wages are—

(a) Remuneration from any of the services specifically excepted from the scope of "covered employment";

(b) Services partly in covered and partly in excepted employment, but only where more than half the pay period is in excepted employment. If more than half the pay period is in covered employment, the wages received for the whole period shall be "wages" under the Social Security Act;

(c) Tips or gratuities paid directly to an employee by a customer of an employer and not accounted for by the employee to the employer.

NOTE.—Under the original Social Security Act, "wages" were defined as all remuneration for employment, including the cash value of all remuneration paid in any medium other than cash, except that the limit of the remuneration paid by any employer for the purposes of the act was \$3,000. [49 Stat. 625, sec. 210 (a).]

In the 1939 act, the same limitation of \$3,000 a year in wages subject to social security was enacted. However, express exclusions in computing this sum were also provided. These are [53 Stat. 1373]—

1. Payments by employers to plans or systems for retirement, sickness, or disability, medical and hospitalization expenses, or death, provided the employee has no option to draw on his death benefit in advance, or to assign such benefit or receive consideration in lieu thereof on his withdrawal from the plan;

2. Amounts paid by an employer without deduction from or reimbursement by an employee (a) as the employee's tax under the Federal employment tax, or (b) the employee's contribution under a State unemployment compensation law;

3. A dismissal payment which the employer is not required to make;

4. Any compensation made prior to January 1, 1937. This last was a purely technical amendment as such wages were already excluded in the provisions providing the benefits. [S. Rept. 734, 76th Cong., p. 54.]

B. SELF-EMPLOYMENT INCOME

1. The term "net earnings from self-employment" means the gross income, i. e., gains, profits, and income derived by an individual from any trade or business carried on by such individual (either personally, by agents or employees, or in partnership) less any trade or business expense deductions allowed under the Internal Revenue Code.

To this shall be added any individual's distributive share (whether or not distributed) of the ordinary net income or loss, computed under the requirements as to partnership income, where such income is derived from any trade or business carried on by the partnership of which such individual is an active, limited, or inactive member.

This self-employment income is the aggregate of such income from all sources, and losses from one source may be offset against gains from another in determining it.

Exclusions are—

(a) Rentals from real estate, unless from a business of real estate rental;

(b) Income from agricultural activities. If the person is engaged in agricultural and other activities, the exclusion will depend on one of two factors: (1) Whether the other activities are distinct enterprises, or (2) if not distinct enterprises, whether more time is given to them than to the excluded agricultural enterprises. If half, or less, of the time is spent on agricultural activities, all the income from both sources shall be included as self-employment income;

(c) Interest, or dividends, on stocks, bonds, debentures, etc., unless such income (excluding that received from obligations of the United States and its instrumentalities) is received as a dealer in stocks and bonds;

(d) Gains or losses (1) from sales of capital assets, (2) from disposal of timber in an involuntary conversion, (3) from the sale, exchange, or involuntary conversion of property (a) which would not be included in in-

ventory at the end of the year, or (b) which is not held primarily for sale in the ordinary course of business;

(e) Operating losses which are subject to carryback or carryover allowances.

When the income paid or accrued is community-property income, it shall be taxable, for the purpose of self-employment income, to the spouse who exercises substantially all the management or control over the business from which it is derived.

In the case of any taxable year beginning after January 1, 1951, residents of Puerto Rico shall compute their self-employment income on the same basis as citizens of the United States.

If the taxable year of the partner differs from that of the partnership, his distributive share shall be subject to self-employment income computation provided it is paid or accrues to him within his taxable year. This applies though the taxable year of the partnership begins before 1951 when the self-employment tax became applicable.

The taxpayer shall report his self-employment income on the cash or accrual basis, whichever is his ordinary method of reporting. Also, if he uses the installment plan of reporting, he shall continue to employ that system. "Partnership" extends beyond the common-law definition to include a syndicate, group, pool, joint venture, or any other unincorporated organization, which is not a trust, estate, or corporation. [20 CFR 404.1051.]

2. Self-employment income is defined to mean net earnings from self-employment earned during any taxable year after 1950, except—

(a) Any amount over \$3,600;

(b) Any amount less than \$400. There shall, however, be reportable self-employment income, though less than \$400, if it is part of an amount of self-employment income in excess of \$400, and if it represents the difference between the wages received from other sources and the maximum of \$3,600. [20 CFR 404.1055.]

Residents of Puerto Rico (but not otherwise citizens of the United States) shall be considered nonresident alien individuals prior to January 1, 1951, and not liable to tax on self-employment income. Residents (not United States citizens) of the Virgin Islands shall be subject to tax on self-employment income as of the effective date of the tax; and residents of Puerto Rico (not otherwise citizens of the United States) shall be so subject as of January 1, 1951.

3. Trade or business. Trade or business is held to have the same meaning as used in the Internal Revenue Code [26 U. S. C. 23 (the cross reference) lists trade and business expenses and does not provide a definition of "trade or business" per se]. The terms does not include performance of service—

(a) In a public office;

(b) In distribution of newspapers, except over the age of 18 and on a profit-making, rather than wage, basis;

(c) As an employee or employee representative under the Railroad Retirement Act;

(d) As a minister of a church or member of a religious order;

(e) In certain enumerated professions, e. g., physician, lawyer, dentist, osteopath, veterinarian, chiropractor, naturopath, optometrist, Christian Science practitioner, architect, certified and other public accountants, funeral director, or professional engineer.

Words ordinarily used (as in (e) above) shall have their ordinary meaning, and partnerships formed to carry on any of the excluded services, shall have the distributive share of the income from such activities exempt from tax under the self-employment income provisions of the Social Security Act. [20 CFR 404.1057.]

4. Partnership and partner. Although a referral over is made to Supplement F of the Internal Revenue Code for the meaning of partner and partnership, these terms are not defined in that part of the Internal Revenue Code.

The regulations under this section of the Social Security Act state that "partnership" includes common-law partnerships, syndicates, pools, joint ventures, or any other unincorporated organization. Partner is considered a member of any of these whether his status is active, limited, or inactive. [20 CFR 404.1051 (g).]

5. Taxable year. A "taxable year" is that period of time of the extent of a year, the income received during which is subject to tax. It may or may not coincide with the calendar year. [42 U. S. C. 411.]

NOTE.—The rates of tax on self-employment income are one and one-half times those paid by the wage-earner, or three-fourths the contribution made by both employer and employee. These taxing provisions will be found in the Internal Revenue Code, secs. 480-482 (26 U. S. C. 480-482).

C. TOTAL WAGES AND TOTAL SELF-EMPLOYMENT INCOME

Wages and self-employment income are used in determining average monthly wage. Average monthly wage is based on total wages and/or total self-employment income. The computation is explained in part VI hereafter. Total wages and total self-employment income consist of—

1. All wages and self-employment income earned by an individual from his starting date to his closing date, within the limitations as noted in the definitions above;
2. Wages credited prior to the 1948 amendments to individuals who by that act were excluded from further coverage as independent contractors but who had previously been covered under the act [62 Stat. 438, sec. 1]. An express preservation of such credits was included in the law. [62 Stat. 438, sec. 2 (b)];
3. All wage credits which have become conclusive evidence on the Department's records of earnings because of the expiration of 3 years, 2 months and 15 days following the year in which they were credited;
4. All wages deemed paid an individual by reason of military service after September 15, 1940, and January 1, 1954; and
5. All compensation certified to the Social Security Administration by the Railroad Retirement Board provided such compensation may otherwise be treated as wages. [20 CFR 404.206.]

III. BASIS OF INSURED STATUS

A. DEFINITIONS

For the purposes of old-age and survivors' insurance:

1. The term "quarter" and the term "calendar quarter" meant a period of 3 calendar months ending on March 31, June 30, September 30, or December 31. [42 U. S. C. 413 (a) (1).]

Regulation states that terms are used interchangeably. (20 CFR 404.102.)

2. "Quarter of coverage" means—

(a) For quarters before 1951: One in which an individual is paid \$50 or more wages. Any individual who earns \$3,000 or more a year shall be covered for each quarter succeeding his first quarter of coverage for that year, but no individual will be covered for that quarter (or succeeding quarter) in which he died or became entitled to a primary insurance benefit. [42 U. S. C. 413 (a) (2) (A); 20 CFR 404.103.]

(b) For quarters after 1950: One in which an individual is paid \$50 or more wages, or has been credited with \$100 or more self-employment income, or has been paid \$3,600 or more in wages for the calendar year in which the quarter occurs, or has self-employment income and wages equaling \$3,600 for a taxable year in which the quarter, or part of the quarter, occurs. However, no individual shall be covered for the quarter in which he dies and no coverage will be allowed before the quarter has begun. [42 U. S. C. 413 (a) (2) (A).]

Regulation is to the same effect and states that no quarter shall be counted for more than one quarter of coverage. (20 CFR 404.104.)

3. Fully insured individual means—

(a) For a person dying before September 1, 1950: That he have one quarter of coverage for each two that have elapsed since 1936, or that have elapsed since the quarter after he became 21 if that was after 1936, and up to but excluding, the quarter in which he died or reached retirement age. If the number of quarters after 1936 or the attainment of age 21 (whichever is applicable) is odd, one is subtracted from such number before the formula is applied. An individual must have at least 6 quarters of coverage. [42 U. S. C. 414 (a); 20 CFR 404.107.]

(b) For a person dying on or after September 1, 1950.—(1) that he have one quarter of coverage (no matter when acquired) for each two that have elapsed since 1950, or since the quarter he became 21 if that was after 1950, and up to, but excluding, the quarter in which he died or reached retirement age. If the number of quarters computed under this provision is an odd number, one shall be subtracted before the formula is applied. A person must have at least 6 quarters of coverage; or (2) that he have 40 quarters of coverage. [42 U. S. C. 414 (a); 20 CFR 404.108.]

4. A. *Currently insured individual* means an individual who has not less than 6 quarters of coverage during the 13-quarter period ending either on the

person's death, his entitlement to old-age insurance benefits, or his entitlement to primary insurance benefits under OASI as in effect prior to August 28, 1950. [42 U. S. C. 414 (b) ; 20 CFR 404.109.]

B. Wages paid an individual in either of the 6-month periods (starting in January or July) 1937 shall be deemed paid:

1. One half the amount in each quarter of the period, if wages of \$100 or more were paid in the period;

2. The total amount in the second quarter of the period, if less than \$100 were paid; but if the individual reached 65 during the period it shall be deemed paid before the age is reached. [42 U. S. C. 413 (b).]

Regulation is to the same effect and points out that in 1937 employers reported wages on semi-annual basis and it was necessary to allocate to a calendar quarters basis to determine coverage for 1937. [22 CFR 404.105.]

C. Self-employment income shall be credited to calendar quarters as follows:

1. Where a calendar year is used in reporting such self-employment income, the amount earned shall be averaged equally to each quarter of such year;

2. Where a taxable year is used in reporting such income (i. e., a fiscal year or a part year beginning or ending in a calendar year), the amount earned shall be averaged equally to the quarter in which the year ends and to each of the next three or fewer preceding quarters any part of which is in such taxable year. [42 U. S. C. 412; 20 CFR 404.106.]

Regulation states that self-employment income is reportable annually. [20 CFR 404.106.]

IV. INDIVIDUALS ENTITLED TO BENEFITS AND DURATION OF BENEFITS

A. INDIVIDUALS ENTITLED TO OLD-AGE BENEFITS

1. Eligibility

An individual is entitled to old-age insurance benefits if he is a fully insured¹ individual; has attained 65 years of age; and has filed application for benefits.

2. Duration

Benefits start the first month in which an individual becomes entitled after August 1950 and cease the month preceding his death.

B. WIFE'S INSURANCE BENEFITS²

1. Eligibility

A wife³ of an individual entitled to old-age insurance benefits shall be entitled to benefits if she:

(a) Has filed an application for benefits;

(b) Has reached 65 years of age or has in her care⁴ a child entitled to a child's benefit based on wages and self-employment income of her husband;

(c) Was living with her husband at the time the application was filed;⁵ and

(d) Either is not entitled to old-age insurance benefits or her benefits are less than one-half of those of her husband.

¹ See sec. III, supra.

² General note: In determining whether an applicant is wife, husband, widow, widower, child, or parent of an insured individual, the Secretary of Health, Education, and Welfare shall follow the law of devolution of intestate property employed in the State in which insured is domiciled at time of application. If the insured individual is deceased, the law of the State of domicile at death shall govern. If the insured individual is not domiciled in any State, the law of the District of Columbia shall govern.

³ A "wife" who (1) is the mother of the insured individual's child or (2) was married to him for at least 3 years immediately preceding application.

⁴ A wife has a child in her care, individually or jointly with her husband, if she alone or together with her husband exercises parental responsibility for the welfare and care of the child. If the husband alone exercises such responsibility, the child is not in the wife's care. Where responsibility is exercised exclusively and alternately, this does not constitute joint care for the entire period. A child may be in the care of the husband or wife while physically separated, but only if the separation is for good cause and does not interfere with the exercise of parental responsibility.

⁵ "Living with" used in reference to applications for benefits for wife, husband, widow, or widower shall mean (1) the husband and wife were members of the same household at time of application (temporary separations where the intention is to resume living together constitutes living in the same household); (2) the applicant was receiving regular contributions from such individual for his or her support; (3) such individual had been ordered by any court to contribute to the applicant's support.

2. Duration

Benefits *start* in the first month after 1950 in which she becomes entitled and *cease* in the month *preceding* one of the following events: her death; husband's death; absolute divorce; no child of her husband is entitled to a child's benefit and she has not attained 65 years of age; or entitlement to an old-age insurance benefit equal to or exceeding one-half of her husband's benefit.

C. HUSBAND'S INSURANCE BENEFITS

1. Eligibility

A husband⁷ of a currently insured⁸ individual entitled to old-age insurance benefits shall be entitled to benefits if he:

- (a) Has filed an application for benefits;
- (b) Has reached 65 years of age;
- (c) Was living with his wife at the time the application was filed;
- (d) Was receiving at least one-half of his support⁹ from his wife at the time she became entitled to old-age insurance benefits; and
- (e) Either is not entitled to old-age insurance benefits or his benefits are less than one-half of those of his wife.

2. Duration

Benefits *start* in the first month after August 1950 in which he becomes entitled and *cease* in the month *preceding* one of the following events: His death; wife's death; absolute divorce; or entitlement to an old-age insurance benefit equal to or exceeding one-half of his wife's benefit.

D. CHILD'S INSURANCE BENEFITS

1. Eligibility

Every child¹⁰ of an individual entitled to old-age insurance benefits or of an entitled to benefits if such child—

- (a) Has filed an application for benefits;
- (b) Was under 18 years of age and unmarried at time of filing;
- (c) Was *dependent*¹¹ upon such individual at the time of filing or at the death of the insured individual.

2. Duration

Benefits start in the first month after August 1950, in which the child becomes entitled and cease in the month preceding one of the following events: The child's death; marriage; adoption (except by a close relative after the death of the insured); attainment of 18 years of age.

E. WIDOW'S INSURANCE BENEFITS

1. Eligibility

A widow¹² of an individual who died a fully insured individual after 1939, shall be entitled to benefits if she—

⁷ A "husband" who (1) is the father of the insured individual's child or (2) was married to her for at least 3 years immediately preceding application.

⁸ See sec. III, *supra*.

⁹ "Support" includes food, shelter, clothing, ordinary medical expenses, and other ordinary and customary items of maintenance. A person is receiving one-half or more of his support from another if that other is making contributions, in cash or kind, to such support.

¹⁰ A "child" who (1) is the child of the insured individual; (2) has been a stepchild or adopted child for 3 years preceding application where the individual is *living*; or (3) is an adopted child, at any time, or a stepchild for at least 1 year preceding death of the insured individual where the individual is *deceased*. Time as a stepchild shall be counted as time as adopted child for purposes of the 3-year requirement aforementioned.

individual who died a fully or currently insured individual after 1939 shall be

¹¹ A child is deemed dependent upon his *father* or *adopting father* unless the father was not living with or contributing to the support of such child and *further* that such child (1) is neither the legitimate nor adopted child; or (2) had been adopted by someone else; or (3) was living with and receiving more than one-half support from his *stepfather*.

A child is deemed dependent on his *stepfather* if he was living with or receiving at least one-half of his support from him at the time of application.

A child is deemed dependent upon his natural or adopting *mother* if she was a *currently insured* individual. A child is also deemed dependent on his natural or adopted mother or stepmother if, at the time of application, (1) she was living with or contributing to the support of the child and (2) there were no contributions from the father or stepfather or she was contributing at least one-half of the child's support.

¹² A "widow" who (1) is the mother of the insured individual's child; (2) legally adopted his child (under 18 years) while she was married to him; (3) was married to him when both of them legally adopted a child (under 18); or was married to him at least 1 year immediately preceding his death.

- (a) Has not remarried;
- (b) Has attained 65 years of age;
- (c) Has filed an application for benefits or was entitled to wife's insurance benefits for the month preceding her husband's death;
- (d) Was living with her husband at his death; and
- (e) Is not entitled to old-age insurance benefits or if such benefits are less than three-fourths of the primary insurance amount¹³ of the decedent.

2. Duration

Benefits start with the first month after August 1950, in which she becomes entitled and cease in the month preceding one of the following events: Remarriage; death; entitlement to old-age insurance benefits equal to or exceeding three-fourths of the primary insurance amount of her deceased husband.

F. WIDOWER'S INSURANCE BENEFITS

1. Eligibility

A widower¹⁴ of an individual who died a fully and currently insured individual after August 1950, shall be entitled to benefits if he—

- (a) Has not remarried;
- (b) Has attained 65 years of age;
- (c) Has filed an application for benefits or was entitled to husband's insurance benefits for the month preceding his wife's death;
- (d) Was living with his wife at her death;
- (e) Was receiving at least one-half of his support from his wife either at her death or at the time she became entitled to old-age benefits and was then currently insured; and
- (f) Is not entitled to old-age benefits or if such benefits are less than three-fourths of the primary insurance amount of his deceased wife.

2. Duration

Benefits start with the first month after August 1950 in which he becomes entitled and cease in the month preceding one of the following events: Remarriage; death; entitlement to old-age insurance benefits equal to or exceeding three-fourths of the primary insurance amount of his deceased wife.

G. MOTHER'S INSURANCE BENEFITS

1. Eligibility

A widow and every former wife divorced¹⁵ of an individual who died a fully or currently insured individual after 1939 shall be entitled to mother's insurance benefits if she—

- (a) Has not remarried;
- (b) Is not entitled to a widow's insurance benefit;
- (c) Is not entitled to old-age insurance benefits or if such benefits are less than three-fourths of the primary insurance amount of the husband;
- (d) Has filed an application for mother's benefits;
- (e) Has in her care¹⁶ a child of the husband entitled to child's insurance benefit at the time of filing; and
- (f) (1) In the case of a widow, was living with her husband at his death; or
- (2) In the case of a former wife divorced, was receiving, by court order, at least one-half of her support from her former husband at his death and benefits payable to the child were based on this income.

2. Duration

Benefits start with the first month after August 1950 in which she becomes entitled and cease in the month preceding one of the following events: No child of the decedent is entitled to child's benefits on his income; entitlement to old-

¹³ See sec. VI, *infra*.

¹⁴ A "widower" who (1), is the father of the insured individual's child; (2), legally adopted her child (under 18 years) while he was married to her; (3), was married to her when both of them legally adopted a child (under 18); or (4) was married to her at least 1 year immediately preceding her death.

¹⁵ A "former wife divorced" is a woman absolutely divorced from the insured individual who (1) is the mother of the insured individual's child; (2) legally adopted his child (under 18 years) while she was married to him; or (3) was married to him when both of them legally adopted a child (under 18).

¹⁶ A mother has a child in her care if she exercises parental responsibility for the welfare and care of the child, even though she and the child may be physically separated, provided their separation is for a good reason and does not interfere with the exercise of such parental responsibility.

age benefits equal to or exceeding three-fourths of the primary insurance amount of the decedent; entitlement to a widow's benefit; remarriage; death.

H. PARENT'S INSURANCE BENEFITS

1. Eligibility

Every parent¹⁷ of an individual who died fully insured after 1939 and who did not leave a widow or widower (entitled to benefits) or unmarried dependent child under the age of 18 shall be entitled to parent's benefits if the parent—

- (a) Has reached 65 years of age;
- (b) Was receiving at least one-half of his or her support from the child at the child's death;
- (c) Has not married since the child's death;
- (d) Is not entitled to old-age benefits or if they are less than three-fourths of the primary insurance amount of the decedent;
- (e) Has filed an application for parent's benefits.

2. Duration

Benefits start with the first month after August 1950 in which the parent becomes entitled and cease in the month *preceding* one of the following events: Death; remarriage; entitlement to an old-age benefit equal to or exceeding three-fourths of the primary insurance amount of the decedent.

I. SIMULTANEOUS ENTITLEMENT TO BENEFITS

1. Child entitled to two or more benefits

A child may be entitled simultaneously to child's benefits based upon the income of more than one individual (e. g., deceased father and mother). Such child, however, will be entitled to payment of only the one benefit which is highest.

2. Group of children entitled to two or more benefits

When each child in a group of children could be entitled to child's benefits based on the income of the *same* two or more individuals (e. g., father and mother) each child who is entitled to payment of benefits in respect to one of these individuals will be deemed entitled to benefits based on any of the insured individuals provided *one* child has filed an application.

3. Other individuals entitled to two or more benefits

(a) If an individual is entitled for any month to more than one monthly benefit, none of which is an old-age insurance benefit, he shall be entitled to only the highest one of such benefits.

(b) If an individual is entitled for any month to an old-age insurance benefit and to any other monthly insurance benefit, such other benefit shall be reduced by an amount equal to the amount of the old-age insurance benefit. [42 U. S. C. 402 (a-h), (k); 416; 20 CFR, ch. III (D), (L).]

J. PROHIBITION AGAINST ASSIGNMENT

The right of any person to any future payment of old-age and survivors insurance benefits shall not be transferable or assignable at law or in equity. None of the moneys paid or payable or rights under this act shall be subject to execution, levy, attachment, garnishment, or other legal process or to the operation of any bankruptcy or insolvency law. [42 U. S. C. A. 407.]

V. AMOUNT AND PAYMENT OF BENEFITS

A. MONTHLY BENEFITS¹⁸

1. Old-age insurance benefits

Monthly benefit shall be equal to the primary insurance amount.

¹⁷ A "parent" means (1) an adopting parent when adoption occurred when the child was under the age of 16; (2) a stepparent by reason of a valid marriage with a parent or adopting parent contracted before the child reached 16; or (3) neither an adopting parent nor stepparent but a parent under applicable State law.

¹⁸ Any primary insurance amount and any amount of monthly benefit which is not a multiple of 10 cents shall be raised to the next higher multiple of 10 cents.

2. Wife's insurance benefits

Equal to one-half of the old-age insurance benefit of her husband.

3. Husband's insurance benefits

Equal to one-half of the old-age insurance benefit of his wife.

4. Child's insurance benefits

(a) Equal to one-half of the old-age insurance benefit of the insured if he is living.

(b) Equal to three-fourths of the primary insurance amount of the insured individual if he is deceased.

(c) Where more than one child is entitled on the basis of the same insured individual each child shall receive (1) one-half of the primary insurance amount plus (2) one-fourth of the primary insurance amount divided by the number of children.

5. Widow's insurance benefits

Equal to three-fourths of the primary insurance amount of her deceased husband.

6. Widower's insurance benefits

Equal to three-fourths of the primary insurance amount of his deceased wife.

7. Mother's insurance benefits

Equal to three-fourths of the primary insurance amount of her deceased husband or former husband.

8. Parent's insurance benefits

Equal to three-fourths of the primary insurance amount of the deceased individual. [42 U. S. C. 402.]

B. REDUCTION OF MONTHLY INSURANCE BENEFITS**1. When a reduction is required**

A reduction in the amount of benefits is required when there are two or more benefits for a month based upon the wages and self-employment income of an insured individual and when the total amount of such benefits for such months is more than \$45 and exceeds

(a) \$168.75; or

(b) 80 percent of the insured individual's average monthly wage; or

(c) In the case of a child who would be entitled to benefits derived from more than one insured individual (in the absence of a prohibition on double benefits) \$150 or 80 percent of the sum of the average monthly wages of all the insured individuals.

Whenever reductions are made, each benefit, except the old-age insurance benefit, shall be proportionately decreased. In no case will the total amount of each monthly benefit be reduced to an amount less than \$40 for children, or \$45 for all others.

Reductions are also made in respect to benefits for prior months when it is determined that an overpayment would otherwise result. Reductions are made equal to any old-age insurance benefit to which an individual is entitled.

2. When a reduction is not required

A reduction in benefits is not required where—

(a) An individual was entitled to an old-age insurance benefit; and

(b) Two or more other persons were entitled to monthly benefits on the basis of the income of the above-mentioned individual; and

(c) The total of the benefits to which all persons are entitled would be less than those to which they were entitled in August 1952. In such case the total benefits payable will not be less than those for August 1952 plus increases allowed after that date.

3. Deductions from benefits

(a) *Deductions from an insured individual's benefits on account of excessive income.*—Deductions, in amounts and at times determined by the Secretary, shall be made from payments to which an individual is entitled until the total of such deductions equals benefits for any month in which the following circumstances occur:

(1) Such individual is under 75 years of age¹⁰ and rendered services for wages of more than \$75; or

(2) Such individual is under 75 years of age and is charged with net earnings for self-employment of more than \$75;

(b) *Deductions from wife's, widow's, or former wife's benefits on account of failure to have a child in her care.*—Similar deductions in benefits will be made in the following cases:

(1) A wife under retirement age entitled to a wife's insurance benefit did not have in her care a child of her husband entitled to a child's insurance benefit; or

(2) A widow, entitled to a mother's insurance benefit, did not have in her care a child of her deceased husband entitled to a child's insurance benefit; or

(3) A former wife divorced entitled to a mother's insurance benefit, did not have in her care a child of her deceased former husband who (A) is her son, daughter, or legally adopted child and (B) is entitled to a child's insurance benefit on the basis of the income of her deceased former husband.

(c) *Deductions from dependents' benefits on account of excessive income by old-age insurance beneficiary.*—Deductions shall be made from any wife's, husband's, or child's insurance benefit to which a wife, husband, or child is entitled, until the total of such deductions equals benefits for any month in which the following circumstances occur:

(1) An individual, on the basis of whose wages and self-employment income such benefit was payable, is under the age of 75 and rendered services for wages of more than \$50;

(2) An individual, on the basis of whose wages and self-employment income such benefit was payable, is under the age of 75 and is charged with net earnings for self-employment of more than \$75.

(d) *Occurrence of more than one deduction event.*—If more than one event aforementioned occurs in a month, the total amount of the deduction is the same as if only one such event had occurred. The total amount to be deducted is equal to the sum of the deductions for all months in which any event occurred.

(e) *Circumstances under which deductions not required.*—Deductions which are imposed on monthly benefits may be limited under certain circumstances;

(1) If all beneficiaries entitled on the same insurance account and living in the same household, would still be entitled to maximum benefits, even if deductions were made, no such deductions will be imposed;

(2) Where the result of making such deductions and increasing the benefits to others in the family in the month in which the deduction event occurred would be to leave the household in the position where *less than the maximum amount is payable* to such household the amount of the deduction to be imposed will be equal to the *difference between the maximum amount of benefits payable to the household and the amount otherwise payable* to the household in that month.

(f) *Penalty for failure to report certain deduction events.*—Any individual in receipt of benefits subject to reduction because of the occurrence of an event aforementioned (other than net earnings from self-employment of \$75 a month) shall report such occurrence to the Secretary prior to the receipt and acceptance of an insurance benefit for the second month following the month in which such event occurred.

The penalty for failure to make such a report is an additional deduction other than required by previous provisions. An additional deduction will also be imposed against the benefits of a *dependent beneficiary* receiving benefits if such dependent *had knowledge* of the occurrence of the deduction event and failed to make a timely report.

Such individual or a dependent beneficiary receiving benefits is presumed to have knowledge of the deduction event if he should have known of the event by the exercise of that degree of diligence which reasonably could be expected of him.

This presumption may be overcome where there is difficulty in understanding the nature of some of the provisions regarding deductions. This would involve, for example, cases where—

¹⁰ An individual shall be considered as 75 years of age during the entire month in which he attains such age for the purposes of this provision.

- (1) Services were rendered in one month and wages paid in another ;
- (2) Taxes, wages in kind, etc., constituted wages ;
- (3) Services were rendered in the month of filing application prior to such filing ;
- (4) Services were rendered prior to receipt by the beneficiary of his first benefit check ;
- (5) Services were rendered in a month for which no benefit check was received ;
- (6) Coverage of the employer was questionable.

In determining what constitutes convincing evidence of lack of knowledge factors to be considered are : An individual's statement, the degree of care exercised, evidence of good faith, sickness, mental incapacity, impossibility of performance of an obligation, lapse of time, or loss of benefits because of misunderstanding.

The amount of an additional deduction and the manner in which it is effected are the same as specified for other deductions. The amount of the first additional deduction shall equal the deduction imposed for the first month in which an unreported deduction event occurred, even though the failure to report is with respect to more than one month.

(g) *Special provisions pertaining to net earnings from self-employment.*—(1) *Report to the Secretary of net earnings from self-employment.*—(a) Any individual entitled to a monthly benefit during a taxable year has the obligation to report to the Secretary of Health, Education, and Welfare the amount of his net earnings from self-employment when these exceed the product of the number of months in such year times \$75, provided the individual had not reached 75 years of age in or prior to the first month of such year. The report for such taxable year must be filed with the Social Security Administration on or before the 15th day of the third month following the close of such year.

(b) If an individual fails to make a timely report of his net earnings from self-employment for any taxable year and any deduction is imposed by reason of such net earnings—

(i) Such individual shall suffer one additional deduction in an amount equal to his benefits for the last month in such taxable year for which he was entitled to his benefit ;

(ii) (A) If the failure to make such report continues after the close of the fourth calendar month following the close of such taxable year, such individual shall suffer an additional deduction in the same amount for each month during all or any part of which such failure continues after such fourth month.

(B) The number of additional deductions shall not exceed the number of months in such taxable year for which such individual received and accepted insurance benefits and for which deductions are imposed by reason of such net earnings from self-employment.

(C) With respect to the first failure to report net earnings from self-employment only one additional deduction will be imposed—

(i) If the Secretary determines on the basis of its information, that it may be reasonably expected that an individual will suffer deductions by reason of net earnings from self-employment, there may be a suspension of payment for each month in the taxable year. Such suspension will remain in effect until the Secretary has determined whether or not any deduction is imposed for net earnings from self-employment :

(ii) The Secretary may request from an individual a report of estimated net earnings from self-employment for the taxable year and such other information as may be specified. A failure to comply with this request shall in itself constitute justification for a determination that it may reasonably be expected that the individual will suffer deductions imposed by reason of his net earnings from self-employment for such year.

(2) *Months to which net earnings from self-employment are charged.*—For the purpose of determining net earnings from self-employment which limit benefits from the following criteria are applied :

(a) If an individual's net earnings from self-employment for this taxable year are not more than \$75 times the number of months in such year, each month in such year shall be charged with \$75 or less :

(b) If an individual's net earnings from self-employment for this taxable year are more than \$75 times the number of months in such year, each month of such year shall be charged with \$75. The first \$75 of the excess

is charged to the latest month of the taxable year. The next \$75 of the excess, if any, is charged to the next preceding month and so on until all of the excess is charged or every month to which a portion of the excess is chargeable has been charged with a part of such excess;

No part of such excess shall be charged to any month (i) for which the individual was not entitled to a benefit, (ii) in which any event occurred which resulted in deductions from benefits, (iii) in which such individual was age 75 or over, or (iv) in which such individual did not engage in self-employment;

(c) (i) Last month of such taxable year means the latest month in such year to which the charging of the excess is not prohibited by conditions immediately aforementioned;

(ii) A person shall be deemed to have engaged in self-employment in any month if in such month he renders substantial services in operating a trade or business as owner or partner even though there may be no net earnings attributable to his services for such month.

An individual is presumed to have rendered substantial services in each month in his taxable year. However, he may submit evidence to establish that in any month in such taxable year he did not render substantial services with respect to any trade or business the net income or loss of which is includible in computing his net earnings from self-employment for any taxable year.

Factors which are considered in determining whether an individual has rendered substantial services in a month include—

- (A) Amount of time devoted to trade or business;
- (B) Amount of capital invested;
- (C) Nature of services rendered by the beneficiary;
- (D) Seasonal nature of trade or business;
- (E) Presence or absence of a paid manager, partner, or family manager who manages the business;
- (F) Type of business establishment;
- (G) Relationship of activity performed prior to retirement with that performed subsequent to retirement. [42 U. S. C. 403; 20 CFR, ch. III (E).]

C. LUMP-SUM DEATH PAYMENTS

Upon the death, after August 1950, of an individual who died *fully* or *currently insured* an amount equal to *three times* the individual's primary insurance amount shall be paid as follows:

1. To the widow²⁰ or widower of the deceased provided he or she was living with the deceased at the time of death;

2. If there is no widow or widower, then to persons *equitably entitled* thereto for payment of burial expenses. The term "person or persons equitably entitled" does not include, among other, the following:

(a) The United States Government or any wholly owned instrumentality thereof;

(b) Any person under contractual obligation to pay the burial expenses of the deceased, to the extent of such obligations;

(c) Any person paying the expense of the burial of a member or employee of such person, to the extent of any payment under a plan, system, or general practice;

(d) Any person furnishing goods or services in connection with the burial of the deceased, to the extent such goods or services are furnished, except in the case of an organization exempt from payment of taxes or a State or political subdivision thereof or instrumentality of one of the foregoing;

(e) Any person who has been, or will be, wholly or partially reimbursed, to the extent of such reimbursement.

3. Where an estate is a "person equitably entitled" payment will be made to the legal representative of such estate. In the absence of a legal representative, payment may be made to a relative of the deceased by blood, marriage, or adoption, provided there is consent by all readily available members of the group of relative closest in kinship to the deceased and there is an agreement to distribute

²⁰ In determining whether an applicant is the widow of a fully or currently insured individual the Secretary shall apply such law as would be applied in determining the devolution of intestate personal property by the courts of the State in which the insured was domiciled at his death.

the payment to person or persons entitled thereto under applicable State law and to account therefor to a legal representative if one should be appointed.

Where an individual who is equitably entitled dies before collecting the lump sum, payment may be made to his estate in the same manner previously specified, except that the spouse of the equitably entitled individual may be preferred as payee on behalf of the estate.

If no person other than applicant is, or becomes, equitably entitled, the amount payable will be equal to the amount of burial expenses paid or three times the primary insurance amount of deceased, whichever is less. If two or more persons are, or become, equitably entitled, the amount payable is equal to that proportion of three times the primary insurance amount of the deceased which the amount of burial expenses paid bear to the total amount paid by all persons, but in no event shall the amount paid exceed the amount of burial expenses paid. [42 U. S. C. 402 (1) ; 20 CFR, ch. III, 404.338-404.343.]

4. Deductions shall be made from any old-age insurance benefit to which an individual is entitled, or from any other insurance benefit payable on the basis of such individual's wages and self-employment income, until such deductions total the amount of any lump sum paid to such individual under the Social Security Act prior to August 28, 1950.

D. ADJUSTMENTS FOR OVERPAYMENTS AND UNDERPAYMENTS

Adjustments shall be made whenever an error has been made with respect to payments to an individual. This applies to cases where a reduction, increase, or deduction is required and has not been made. "Overpayment" includes a payment where nothing was payable and a payment resulting from the failure to impose timely deductions. "Underpayment" includes nonpayment where some amount was payable.

1. *Adjustments for overpayments*

If an individual to whom an overpayment was made is entitled to benefits or a lump sum, or becomes so entitled, no benefit for any month and no lump sum will be paid until a total amount equal to the amount of the overpayment has been withheld. Such adjustments will be made against any benefits or lump sum to which such individual is or may become entitled regardless of whether such benefits or lump sum are based on his income or that of another individual.

If the individual to whom overpayment was made dies before adjustment is completed, adjustment will be made by decreasing subsequent benefits payable on the basis of the income on which the deceased individual was entitled.

2. *Adjustments for underpayments*

If an individual to whom an underpayment was made is living, the amount of such underpayment will be paid in a single payment or by increasing benefits or lump sum to which he is entitled. If the individual dies, adjustment will be made by increasing subsequent benefits payable with respect to the income which was the basis of the benefits of the deceased individual.

3. *Situations where no adjustments shall be made*

There shall be no adjustment or recovery by the United States in any case where incorrect payment has been made to an individual who is without fault and where adjustment or recovery would defeat the purpose of the old-age and survivors insurance program or would be against equity and good conscience.

(a) *Where adjustment would defeat the purpose of the program.*—The purpose of the program would be defeated where there was a failure to provide at least a subsistence income to beneficiaries. This depends upon whether the individual has income or resources sufficient for more than ordinary needs or is largely or solely dependent upon current payment of benefits for the necessities of life.

(b) *Where adjustment would be against equity and good conscience.*—It would be against equity and good conscience to ask for repayment from an individual when he has—

- (1) Relinquished a valuable right;
- (2) Changed his position for the worse.

Adjustment or recovery of a "deduction overpayment" will be waived when this would be "against equity and good conscience." An example of this is when total benefits affected exceeded net cash earnings for any month.

(c) *Where an individual is without fault.*—(1) In order for an individual

to be without fault (except in the case of deduction overpayments) the facts must show that an incorrect payment did not result from—

- (a) An incorrect statement made by the individual which he knew or should have known to be incorrect;
- (b) Failure to furnish information which he knew or should have known to be material; or
- (c) Acceptance of a payment which he either knew or should have known was incorrect.

(2) An individual is without fault in failing to report a deduction event and in accepting a "deduction overpayment" if and only if it is shown that such failure and acceptance is caused by one or more of the following:

- (a) Misunderstanding as to whether the allowable limit of \$75 applies to gross earnings or "take home" pay;
- (b) Reliance upon erroneous information from the Administration or other governmental agency;
- (c) Unawareness that earnings exceeded \$75 or that this excess should have been reported where the earnings were greater than anticipated because of (i) retroactive pay increases; (ii) higher overtime pay rates; (iii) work at higher paid work than realized; (iv) failure of employer to keep accurate record of earnings; (v) occurrence of an extra workday in a month, e. g., five Saturdays; (vi) unexpected bonus or vacation pay;
- (d) Lack of knowledge that services were covered by the act;
- (e) Unawareness that he was actually employed by a covered employer;
- (f) Continued issuance of checks after notice given of deduction event;
- (g) Lack of knowledge that deductions become applicable on basis of earned wages rather than wages paid;
- (h) Lack of knowledge that bonuses and vacation pay constitute "wages";
- (i) Failure to realize that the work-deduction provision is on a monthly rather than quarterly basis;
- (j) Receipt of back-pay award;
- (k) Reasonable belief that employment was not covered based on employer's failure to make social security tax deductions;
- (l) Lack of knowledge by wife, husband, or child that the old-age beneficiary has incurred work deductions, provided such person is not living with the beneficiary and had no reason to know of his or her employment.

(3) An individual *will not be without fault* if the Administration has evidence in its possession which shows either a lack of good faith or failure to exercise a high degree of care in determining whether circumstances which may cause deductions from his benefits should be brought to the attention of the Administration.

An individual *will not be without fault* where, having been advised of the correct interpretation respecting a deduction, he incurs another "deduction overpayment" under the same circumstances as the first overpayment.

4. *Liability of certifying or disbursing officer*

No certifying or disbursing officer shall be liable for any amount certified or paid by him to any person where the adjustment or recovery of such amount is waived or where adjustment or recovery is not completed prior to the death of all individuals against whose benefits or lump sums deductions are authorized. [42 U. S. C. 404; 20 CFR, ch. III (E).]

VI. COMPUTATION OF BENEFITS

Average Monthly Wage

A. FOR THE PURPOSE OF COMPUTATION IN OLD-AGE AND SURVIVORS' INSURANCE.

1. An individual's *average monthly wage* shall be obtained by adding—

- (a) His wages after his starting date (either December 31, 1950, or the day after the quarter in which he attained 22, whichever results in the higher monthly wage) and before his wage-closing date (the first day of

the second quarter before the quarter in which he died or became entitled to old-age insurance benefits, whichever first occurred);

(b) *Plus* his self-employment income after his starting date (see above) and before his self-employment closing date (the first day of the quarter following his last taxable year, providing he earned self-employment income in that year and the year ended before he died or became entitled to old-age insurance, whichever first occurred);

and dividing the total by the number of months since his starting date (see above) and before his divisor closing date (the later of the wage-closing date and the self-employment closing date) excluding any month in any quarter before the quarter he attained 22 which was not a quarter of coverage, except that if the number of months so computed is less than 18 it will be increased to that number. [22 U. S. C. 415 (b) (1), (2), (3).]

Regulations are to the same effect except that 404.205 uses the terms "total wages" and "total self-employment income" in describing the method of determining average monthly wage. *These terms are defined in 404.206.* [20 CFR 404.205, 404.206, 404.208, 404.209.]

2. An individual who dies or becomes entitled to old-age insurance benefits after the first quarter in which he is both fully insured and has attained 65 shall have his closing date determined as if he had become entitled to old-age insurance benefits in such first quarter, but only if this results in a higher monthly wage for the individual. [22 U. S. C. 415 (b) (3) (D); 20 CFR 404.209.]

3. No self-employment income shall be taken into account in determining an individual's average monthly wage for taxable years ending in or after the month in which the individual dies or becomes entitled to old-age insurance benefits, whichever first occurs. [22 U. S. C. 415 (b) (4).]

4. In computing such average monthly wage, there shall not be included for any calendar year after 1950 anything over \$3,600 in wages and self-employment income. If an individual's average monthly wage is not a multiple of \$1 as computed, it shall be reduced to next lower multiple of \$1. [22 U. S. C. 415 (e) (1), (2); 20 CFR 404.207, 404.206 (a).]

Primary Insurance Amount

B. THE PRIMARY INSURANCE AMOUNT OF AN INDIVIDUAL

1. Attaining 22 years after 1950 and having 6 quarters of coverage after 1950

(a) As applied to lump-sum death payments for deaths after August 1952 and in respect to monthly benefits for the months after August 1952:

Shall be 55 percent of the first \$100 of his average monthly wage, plus 15 percent of the next \$200 of such wages;

If, however, his average monthly wage is below \$48, it shall be as follows:

Average monthly wage:	<i>Primary insurance amount</i>
\$34 or less-----	\$25
\$35 through \$47-----	26

(b) As applied to lump-sum death payments for deaths before September 1952 and in respect to monthly benefits for the months before September 1952:

Shall be 50 percent of the first \$100 of his average monthly wage, plus 15 percent of the next \$200 of such wages;

If, however, his average monthly wage is below \$50, it shall be as follows:

Average monthly wage:	<i>Primary insurance amount</i>
\$30 or less-----	\$20
\$31-----	21
\$32-----	22
\$33-----	23
\$34-----	24
\$35 to \$49-----	25

[22 U. S. C. 415 (a) (1); 20 CFR 404.202 (a).]

2. Attaining 22 years prior to 1951 and having 6 quarters of coverage after 1950

(a) As applied to lump-sum death payments for deaths after August 1952 and in respect to monthly benefits for the months after August 1952:

Shall be the larger of the following:

(1) The amount determined by the formula used in B 1 a of this section,

(2) The amount determined by computing the individual's primary insurance benefit (see C) and applying the following conversion table:

I	II	III
If the primary insurance benefit under (C) is:	The primary insurance amount shall be:	And the average monthly wage for purpose of computing maximum benefits shall be:
\$10	\$25.00	\$45
11	27.00	49
12	29.00	53
13	31.00	56
14	33.00	60
15	35.00	64
16	36.70	67
17	38.20	69
18	39.50	72
19	40.70	74
20	42.00	76
21	43.50	79
22	45.30	82
23	47.50	86
24	50.10	91
25	52.40	95
26	54.40	99
27	56.30	109
28	58.00	120
29	59.40	129
30	60.80	139
31	62.00	147
32	63.30	155
33	64.40	163
34	65.50	170
35	66.60	177
36	67.80	185
37	68.90	193
38	70.00	200
39	71.00	207
40	72.00	213
41	73.10	221
42	74.10	227
43	75.10	234
44	76.10	241
45	77.10	250
46	77.10	250

In case the primary insurance benefit of an individual falls between the amounts in column I of the above table, the primary insurance amount shall be determined by reference to the table broken down to cent designations, as established by the Secretary by regulation and in effect May 1, 1952. The primary insurance amount so determined will be increased by 12½ percent or \$5, whichever is larger, and if not a multiple of \$0.10 it will be increased to the next higher multiple of \$0.10. (A new table reflecting such increases appears in the regulations.) The average monthly wage, for purposes of reduction of benefits under section V, of an individual whose primary insurance amount is determined in such a manner shall be equal to the average monthly wage that would result in such a primary insurance amount if the formula in B 1 a of this section was applied. The Administrator is authorized to assume that the primary insurance benefit is 1 or 2 cents more or less than its actual amount to facilitate the use of the conversion table. [22 U. S. C. 415 (a) (2), 415 (c) : 20 CFR 404.202, 404.203 (b), App. 1, Subpart C.]

(b) As applied to lump-sum death payments for deaths before September 1952 and in respect to monthly benefits for the months before September 1952):

Shall be the larger of the following:

(1) The amount determined by the formula used in B 1 (b).

(2) The amount determined by computing the primary insurance benefit and applying the following conversion table:

I	II	III
If the primary insurance benefit (as determined under C) is:	The primary insurance amount shall be:	And the average monthly wage for purpose of computing maximum benefits shall be:
10	\$20.00	\$40.00
11	22.00	44.00
12	24.00	48.00
13	26.00	52.00
14	28.00	56.00
15	30.00	60.00
16	31.70	63.40
17	33.20	66.40
18	34.50	69.00
19	35.70	71.40
20	37.00	74.00
21	38.50	77.00
22	40.20	80.40
23	42.20	84.40
24	44.50	89.00
25	46.50	93.00
26	48.30	96.60
27	50.00	100.00
28	51.50	110.00
29	52.80	118.60
30	54.00	126.60
31	55.10	134.00
32	56.20	141.30
33	57.20	148.00
34	58.20	154.60
35	59.20	161.30
36	60.20	168.00
37	61.20	174.60
38	62.20	181.30
39	63.10	187.30
40	64.00	195.00
41	64.90	210.00
42	65.80	220.00
43	66.70	230.00
44	67.60	240.00
45	68.50	250.00
46	68.50	250.00

In case the primary insurance benefit of an individual falls between the amounts in column I of the table, it shall be determined in accordance with regulations of the Secretary designed to obtain results consistent with those obtained for those individuals whose primary insurance benefits are shown in column I of the table. The Administrator is authorized to assume that the primary insurance benefit is 1 or 2 cents more or less than its actual amount to facilitate the use of the conversion table.

The regulations supply a conversion table broken down to cent designations to facilitate such computations. [42 U. S. C. 415 (a), 415 (c) (1), (2), (3); 20 CFR 404.202 (b), 404.203 (a).]

3. *Not coming under B 1 or 2 of this section* (not having 6 quarters of coverage after 1950)

(a) As applied to lump-sum death payment for deaths after August 1952 and in respect to monthly benefits for the months after August 1952:

Will be determined by computing the individual's primary insurance benefit and applying the conversion table in B 2 (a) (2).

(b) As applied to lump-sum death payments for deaths before September 1952 and in respect to monthly benefits for the months before September 1952:

Will be determined by computing the individual's primary insurance benefit and applying the conversion table in B 2 (b) (2) [22 U. S. C. 415 (a) (3); 20 CFR 404.202 (c).]

Primary Insurance Benefit for Conversion Tables

C. *The primary insurance benefit* for purposes of the conversion tables in B of this section shall be:

1. *For an individual entitled to a primary insurance benefit for August 1950*

The same as his benefit at that date (see note) but an individual who is either a World War II veteran or in August 1950 received \$15 or more shall be entitled to a primary insurance benefit, if it be larger, as recomputed under 409 (q) of the old code (see note) in the same manner as if he had filed application and was entitled to a recomputation for August 1950 (and, if a veteran of World War II, with the application of advantages set out in section VII). [22 U. S. C. 415 (d) (1), (2).]

NOTE.—References made to the old code in this subsection mean Title 22 of the United States Code as effective on August 27, 1950. The primary insurance benefit as defined by the Social Security Act of 1939 (53 Stat. 1376), 409 (e) (1), (2) of the old code, is as follows: 40 percent of an individual's average monthly wage if such wage does not exceed \$50; or, if such wage exceeds \$50, 40 percent of the \$50 plus 10 percent of the amount above \$50 but not to exceed \$250 plus 1 percent of the above total multiplied by the number of years in which \$200 or more wages were paid the individual.

Average monthly wage was defined in 409 (f) of the old code as the quotient obtained by dividing workman's total wages to the quarter in which he died by three times the number of quarters elapsing after 1936 and until the quarter of his death, but excluding any quarter after the quarter in which he attained age 65 occurring prior to 1939.

409 (q) of the old code gave the administrator the power, with certain restrictions, to recompute the amount of any monthly benefit as though the application for such recomputation had been filed in the calendar quarter in which, all other conditions of entitlement being met, an application for such benefits would have yielded the highest monthly rate of benefit.

Regulation is to the same effect but further states that primary insurance benefits so determined shall be redetermined to include wages paid an individual by reason of his active military or naval service after July 25, 1947. [20 CFR 404.204 (a).]

2. *For an individual who died before September 1950*

Is determined as provided under the old code (see note) except that section VII will be applicable instead of 410 (the section in the old code on veterans) if it results in a larger benefit. [22 U. S. C. 415 (d) (3); 20 CFR 404.204 (b).]

3. *For any other individual*

Determined as provided under the old code (see note), except—

(a) That instead of determining the individual's average monthly wage under 409 (f) of the old code, it shall be determined under A of this section but with a starting date of December 31, 1936.

(b) For the purposes of this computation, the date he became entitled to old-age insurance benefits shall be deemed to be the one he was entitled to primary insurance benefits.

(c) One percent addition provided by 409 (e) (2) of the old code (see note) shall be applicable only with respect to the calendar years before 1951. [22 U. S. C. 415 (d) (4); 20 CFR 404.204 (c).]

D. *Recomputation of the primary insurance amount—*

1. The following shall be entitled to a recomputation:

The insured individual

(a) An individual, entitled to old-age insurance benefits, shall get a recomputation of his primary insurance amount:

(1) If he has 6 quarters of coverage after 1950 (and before the quarter of application) and files an application after the 12th month (in a 36-month period) in which deductions have been made in his benefits on account of work or failure to have a child in care under section V, not taking into account any month prior to 1950 or prior to the earliest month that was taken into account in his last computation.

(Recomputation for such an individual shall be made in the same manner as a computation of the primary insurance amount of an individual who attains 22 after 1950, and has 6 quarters of coverage after that date (see B. 1. (a)) and shall take into account only wages and self-employment income used in determining his average monthly wage under A of this section. It shall be effective the month the application is filed.)

(2) If before the month of application he has attained 75 years, his primary insurance amount has been computed under B 3 of this section,

and he has 6 quarters of coverage after 1950 (and before the quarter of application).

(Recomputation for such individual will be made in the same manner as in 1 above.) [22 U. S. C. 415 (f) (2) ; 20 CFR 404.212.]

(3) If he files application at least 6 months after the month in which he became entitled.

(Recomputation shall be made in the same manner as the computation of the primary insurance amount for such individual except that his "closing date," in determining "average monthly wage," shall be the first day of the quarter he became entitled to old-age insurance benefits. It shall be effective the month in which he became entitled to old-age insurance benefits.)

Regulation is to the same effect. Points out that the difference between the old rate and new rate will be paid retroactively to the date of entitlement. [22 U. S. C. 415 (f) (3) ; 20 CFR 404.212 (a).]

(4) If he became entitled to such benefits in 1952 or in a taxable year that began in 1952 (disregarding the 6 months filing deadline in sec. X) and had self-employment income for a taxable year which began or ended within 1952, and he files application after the close of the taxable year.

(Recomputation shall be made in the same manner as the computation of the primary insurance amount for such individual but the exclusion of self-employment income for taxable years ending in or after the month of death or entitlement, whichever first occurred, from the computation of the average monthly wage shall be disregarded. The self-employment income closing date shall be the day following the quarter in which the taxable year ended and self-employment income for any subsequent year shall not be taken into account. Such recomputation shall not affect the amount of lump-sum death payments under section V or render erroneous any payment certified by the Secretary before the effective date of the recomputation. It shall be effective the first month in which he became entitled to old-age insurance benefits.) [22 U. S. C. 415 (f) (5) ; 20 CFR 404.212 (c).]

The survivors

(b) A person, entitled to monthly benefits on the basis of wages and self-employment income of an individual who died after August 1950, shall get a recomputation of the individual's primary insurance amount:

(1) If he files an application at least 6 months after the month in which the individual dies or becomes entitled to old-age insurance benefit, whichever first occurs.

(Such recomputation shall be made in the same manner as the computation of the primary insurance amount except that an individual's closing date in determining "average monthly wage" shall be the first day of the quarter in which he died or became entitled to old-age insurance benefits, whichever first occurs. Such a recomputation shall be effective the month the person filing the application became entitled to monthly benefits. The recomputation shall not affect the amount of lump-sum death payment or any payment certified by the Secretary before the effective date of the recomputation.) [22 U. S. C. 415 (f) (3) (B) ; 20 CFR 404.213 (a).]

(c) A person, entitled to monthly benefits or lump-sum death payments on the basis of the wages and self-employment income of an individual entitled to old-age insurance benefits who died after August 1950, shall be given a recomputation of the individual's primary insurance amount:

(1) If the individual would have been entitled to a recomputation under

(1) or (2) of this subsection if he had filed application in the month in which he died;

(Recomputation shall be made as if the application had been filed under a. (1) or (2) of this subsection in the month in which he died except that wages paid to him before his divisor closing date (which were credited to him under the Railroad Retirement Act but are treated under section VIII as compensation for purposes of old-age and survivors insurance) will be counted.) [22 U. S. C. 415 (f) (4) (A) ; 20 CFR 404.213 (b) (1), 404.213 (c).]

(2) Or, if the individual during his lifetime was paid wages under the Railroad Retirement Act which are treated under section VIII as wages for the purposes of old-age and survivors insurance.

(Recomputation shall take into account only the wages and self-employment income which were used in his last computation plus the railroad compensation allowed under section VIII paid to him prior to his divisor closing date.) [22 U. S. C. 415 (f) (4) (b) ; 20 CFR 404.213 (b) (2), 404.213 (d).]

If an individual can get a recomputation under either of the above contingencies ((1) or (2)), only the recomputation which results in the larger primary insurance amount shall be used. [22 U. S. C. 415 (f) (4); 20 CFR 404.213 (e).]

(d) A person, entitled to monthly benefits on the basis of wages and self-employment income of an individual who died in 1952 or in the taxable year which began in 1952 but did not become entitled before 1952 and had self-employment income for the taxable year which ended in or began in 1952, shall be given a recomputation of the individual's primary insurance amount if he files application after the close of the taxable year.

(Recomputation shall be made in the same manner as the computation of the primary insurance amount for such individual but disregarding the exclusion of self-employment income for taxable years ending in or after the month of death or entitlement, whichever first occurred, from the computation of the average monthly wage. The self-employment income closing date shall be the day following the quarter in which the taxable year ended and self-employment income for any subsequent year shall not be taken into account. Such recomputation shall become effective in the month the person (survivor) becomes entitled to monthly benefits. No such recomputation shall effect the amount of lump-sum death payments under section V or render erroneous any payment certified by the Secretary before the effective date of the recomputation.) [22 U. S. C. 415 (f) (5); 20 CFR 404.213 (f), (h).]

(e) A person, entitled to monthly benefits on the basis of wages and self-employment income of an individual who became entitled to old-age insurance benefits in 1952 or in the taxable year that began in 1952 (disregarding the 6 months filing deadline in section X) and who had self-employment income for a taxable year which began or ended within 1952, shall be given a recomputation of the individual's primary insurance amount if he files application after the close of the taxable year.

(Recomputation will be accomplished in the same manner and under the same conditions as under the preceding subsection, (d) [22 U. S. C. 415 (f) (5); 20 CFR 404.213 (g), (H).]

2. There shall be no recomputation of an individual's primary insurance amount other than under this section and, in the case of World War II veterans who die before January 27, 1954, under section VII. Any recomputation under this section shall only be effective if it results in a higher primary insurance amount. [22 U. S. C. 415 (f) (1), (6); 20 CFR 404.214, 404.215.]

VII. VETERANS PROVISIONS

Veterans who have served 90 days or more in the active military or naval service of the United States between September 15, 1940 and January 1, 1954 and are honorably discharged or released, are given wage credits for such service. Those veterans who have served prior to July 24, 1947 shall have a fully *insured* status if they die within 3 years after date of separation.

A. WAGE CREDITS FOR MILITARY SERVICE

1. Entitlement

After August 1950 wage credits equaling \$160 per month of active service between September 15, 1940 and July 25, 1947 are used (in addition to other wages) in determining monthly benefits payable to the veteran and his dependents. These credits also apply to monthly benefits to survivors (even though death occurred before September 1950) and to lump-sum payments where death occurs after August 1950.

Benefits payable on wage credits of veterans serving between July 25, 1947 and January 1, 1954 will commence with monthly benefits after August 1952 or the seventh month prior to filing application, whichever is later. Lump-sum death payments will be made in cases of deaths occurring after August 1952.

There are two cases in which these wage credits will *not* be granted:

(a) If a larger benefit or payment would otherwise be payable;

(b) If *any part of active military service* of the veteran has been credited toward *another Federal benefit* under civil service, railroad retirement, military or other Federal programs which provide for retirement on account of age, length of service, or disability or for survivors insurance. Entitlement to another Federal benefit must be determined by an agency or wholly owned instrumentality of the United States (other than the Veterans' Administra-

tion) to be payable by it. This exception does not apply after August 1952 if the effect of denying wage credits for military service would reduce \$0.50 or less the primary insurance amount of the veteran.

2. Administration

When application is made for benefits based on income for any veteran the Secretary of Health, Education, and Welfare shall make a decision without regard to the possibility of entitlement to another Federal benefit unless some other agency notifies the Secretary that a benefit is payable by it. If another agency has decided or decides that a benefit is payable by it to a veteran it shall notify the Secretary of Health, Education, and Welfare and no further benefits shall be certified for payment or a recomputation shall be made of further benefits payable. Every agency of the United States shall, at the request of the Secretary of Health, Education, and Welfare, certify, in respect to any veteran, the information necessary to carry out its functions under this provision.

B. GUARANTEED BENEFITS TO SURVIVORS OF WORLD WAR II VETERANS

1. Entitlement

Any veteran who served between September 15, 1940 and July 25, 1947 and who died within 3 years of separation from military service shall be deemed to have died a *fully insured individual*. The primary insurance benefit shall be determined as effective prior to August 28, 1950.

Monthly benefits or lump-sum death payment will *not* be payable under the following circumstances:

- (a) If a larger benefit would otherwise be payable;
- (b) If the Veterans' Administration determines that any pension or compensation is payable by it on the basis of the death of the veteran;
- (c) If death occurred while the veteran was in active military or naval service of the United States;
- (d) If the veteran has been separated from active service since July 26, 1951.

2. Administration

When application is made for benefits based on income for any veteran who served prior to July 25, 1947, the Secretary of Health, Education, and Welfare shall make a decision without regard to the possibility of entitlement to a benefit payable by the Veterans' Administration unless the Veterans' Administration notifies the Secretary that pension or compensation is determined to be payable by itself. The Secretary shall report this decision to the Veterans' Administration. If the Veterans' Administration has made or thereafter makes an adjudication that any pension or compensation is payable by it, it shall notify the Secretary and no further benefits shall be certified for payment or a recomputation shall be made. Any amount already certified by the Secretary, not in excess of the amount of any accrued pension, shall be deemed to have been paid on account of the accrued pension or compensation.

C. FILING OF PROOF OF SUPPORT

Proof of support by a parent in order to claim benefits for wage credits for military service must be filed prior to July 1951 or prior to the expiration of 2 years after the date of death of the veteran. [42 U. S. C. 417; 20 CFR, Ch. III (N).]

VIII. INTERRELATIONSHIP OF OLD-AGE AND SURVIVORS INSURANCE PROGRAM WITH THE RAILROAD-RETIREMENT PROGRAM

A. GENERAL RELATIONSHIP BETWEEN THE PROGRAMS

The Railroad Retirement Act contains provisions which set up a system of benefits for certain survivors of railroad employees similar to survivors benefit provisions under the Social Security Act. These benefits are comprised of monthly insurance annuities beginning with January 1947 and lump-sum payments in respect to deaths after 1946. The two acts are coordinated so that there is no duplication of benefits by virtue of entitlement under both acts. Payments under the Social Security Act are based on combined earnings credits where both railroad *compensation* and old-age and survivors insurance *wages and self-*

employment income are involved (except in certain cases explained below with respect to military service). Where the deceased individual had a "current connection" with the railroad industry when he died his survivors generally would be paid under the railroad retirement program. If he did not have this "current connection" at his death and was *fully or currently* insured, entitlement would be under the Social Security Act.

B. POSSIBLE ENTITLEMENT UNDER BOTH PROGRAMS

1. *Railroad retirement benefits a bar to payment of social-security benefits*

Any person entitled to an annuity or lump-sum payment under the Railroad Retirement Act because of the death of an employee will *not* be entitled to lump-sum payment or insurance benefits under this program when death of the insured individual occurred after August 1950.

2. *Railroad retirement benefits not a bar to payment of social-security benefits*

(a) Where an insured individual died before January 1947 and benefits under the old-age and survivors insurance program would be *greater* than the survivors annuity payable after 1946 under the railroad-retirement program, benefits for months after 1946 will be paid under the old-age and survivors program.

(b) A parent or widow, upon the death of an individual, may irrevocably elect to receive a lump sum death payment in lieu of annuities to which he or she might otherwise become entitled under the railroad retirement insurance program. Despite this election, such parent or widow may nevertheless be entitled also to benefits under this act based on income of the insured individual.

C. COMPENSATION UNDER THE RAILROAD RETIREMENT ACT TREATED AS WAGES IN SOME CASES

1. *When compensation is treated as wages*

Where eligibility does not exist under the Railroad Retirement Act to an annuity or lump sum payment, *compensation* under the Railroad Retirement Act will be treated as *wages* for the purposes of benefits under this act. Such compensation under the Railroad Retirement Act which is creditable on account of military service shall not be treated as wages to the extent that war-service wages are credited to the wage record of a veteran for the purpose of this Act. (See Veterans Provisions, sec. VII.)

2. *For determining insured status and computing primary insurance amount*

Compensation under the Railroad Retirement Act which is treated as *wages* shall be used together with other wages and self-employment income for the purpose of determining a deceased individual's insured status and computing the *primary insurance amount* for the payment of benefits.

3. *Presumption of coverage*

The Railroad Retirement Board certifies to the Secretary of Health, Education, and Welfare a record of *compensation* under that act which is treated as *wages* for social security benefits. When months or quarters, which compensation is paid, are not identified it is presumed (in absence of contrary evidence) to represent an equivalent number of quarters of coverage. No more than four quarters of coverage shall be credited to an individual in a single calendar year. If the deceased individual had self-employment income for a taxable year and the sum of this income and wages equals \$3,600 any part of such quarter falling within the taxable year should be a quarter of coverage.

If this presumption does not result in an individual's having an insured status on the basis of quarters of coverage or if his average monthly wage may be affected because he attained age 22 after 1936, the Administration will request from the Railroad Retirement Board a report of *months* in which the individual rendered services for compensation which are treated as wages under this act if it appears that this may result in an insured status or if it will affect the average monthly wage. [42 U. S. C. A. 405 (o) ; 402 (1) ; 20 CFR, ch. III (o).]

IX. FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

A. The Federal old-age and survivors insurance trust fund is composed of three items: Securities held by the Secretary of the Treasury for the old-age reserve account; amount standing to the credit of the old-age reserve account on January 1, 1940; appropriations for each fiscal year equal to taxes, penalties,

etc., received from employees (including self-employed) and employers (other than carriers) as *employment taxes for old-age and survivors insurance*.

B. A board of trustees for the fund composed of the Secretaries of the Treasury, Labor, and Health, Education, and Welfare, all ex officio, with the Secretary of the Treasury as managing trustee and the Commissioner for Social Security as the secretary, is established.

The duties of the board are as follows:

1. Hold the trust fund.

2. Report annually to Congress prior to March 1st the operation and status of the fund during the past fiscal year and expected operation and status during the next 5 fiscal years. This report should include information as to disbursements in the past year, estimates of future income and disbursements for each of the next 5 fiscal years and a statement of the actuarial status of the trust fund;

3. Report immediately to Congress whenever the board of trustees feels that the trust fund will exceed 3 times the highest annual expenditure anticipated during the next 5 fiscal years. Such report should also be made when the board feels that the trust fund is unduly small;

4. Recommend improvements in administrative procedures and policies designed to effectuate the proper coordination of the old-age and survivors insurance and Federal-State unemployment compensation programs.

C. The *managing trustee* (Secretary of the Treasury) has the duty to invest such portion of the trust fund as he deems not required to meet current withdrawals. Such investments are limited to interest-bearing obligations of the United States or obligations guaranteed as to principal and interest by the United States. Such obligations may be acquired (1) on original issue at par or (2) by purchase of outstanding obligations at the market price.

Special obligations may be issued at par exclusively to the trust fund. Interest rates on these obligations are set in accordance with the present average of interest-bearing obligations of the United States forming part of the public debt. Special obligations shall be issued only if the managing trustee finds that it would not be in the public interest to purchase other United States obligations or guaranteed obligations.

D. Obligations acquired by the trust fund (except special obligations issued exclusively to the trust fund) may be sold by the managing trustee at the market price. Special obligations may be redeemed at par plus accrued interest.

E. Interest or proceeds from sale or redemption of obligations held in the trust fund shall be credited to the trust fund.

F. (1) Payment of funds will be made from the trust fund to the Treasury, based on estimated expenditures for a 3-month period, as repayment for reimbursement of expenses incurred in the collection of taxes and payment of benefits in connection with the old-age and survivors insurance program.

(2) Payments will be made by the managing trustee from time to time from the trust fund into the Treasury in an amount estimated as taxes subject to refund.

(3) Repayments made from the trust fund to the Treasury shall not be available for expenditures but shall be carried to the surplus fund of the Treasury. Adjustments will be made in future payments if estimates have not been accurate.

G. Amounts credited to the trust fund shall be available for making payments for benefits under the old-age and survivor's insurance program.

X. PENALTIES

Any person shall be guilty of a misdemeanor if he makes or causes to be made any false statement or representation:

- (1) For the purpose of causing an increase in any payment authorized under this act;

- (2) For the purpose of causing a payment to be made where no payment is authorized;

- (3) Concerning the amount of wages paid or received or the period during which earned or paid;

- (4) In connection with any matter relating to the collection of employment taxes due;

- (5) Concerning a material fact in any application for benefits; or

- (6) In connection with an application.

If convicted, such person will be subject to a fine of not more than \$1,000 or imprisoned for not more than 1 year or both. [42 U. S. C. A. 408.]

PART II. PROCEDURE AND EVIDENCE

XI. SOCIAL SECURITY ACCOUNTS

A. ACCOUNT AND IDENTIFICATION NUMBER

1. *Individual's account number*

Every person who wishes to apply for a social-security account number shall file an *Application for Social Security Account Number*. This application may be obtained at any social-security field office or from a Director of Internal Revenue. Where there is no field office in a community, the application may be obtained at any post office or United States Employment Service office.

The field office shall assign an account to the applicant on the basis of the application, unless it appears probable that the applicant already has a number. In such event, the application shall be checked against the central files at the Bureau's Division of Accounting Operations (hereafter called the Division), Baltimore, Md. If it is established that the applicant does not have an existing number, he shall be given an *account number card*, on which shall be his name and social-security account number. Wages and self-employment income of the applicant, as reported on information returns, shall thereafter be posted to his account. If the applicant needs a card at once, the field office shall issue him a *temporary unnumbered card*.

A lost or damaged card shall be replaced by a duplicate card upon presentation of the lower half of the old card. Lacking this, the individual must fill out and submit to a field office or to the Division, an *application for social-security account number* marked "Duplicate Requested." If the social-security card is urgently needed, the field office will help the individual send a telegram giving the necessary information to the Division. The Division will make an immediate search for the account number and notify the individual by collect telegram of the results. If the number is located, the field office shall issue a duplicate card; and if it is not, the field office will assign a new number.

An individual who wishes to change or correct information previously submitted shall file a *Request for Change*, which may be obtained at the same offices as an *Application for Social-Security Account Number*.

2. *Employer's identification number*

The Division shall assign an employer's identification number to every State, political subdivision, or instrumentality included in an argument between a State or an instrumentality of 2 or more States and the Secretary of Health, Education, and Welfare, for social-security coverage of its employees. All other employers who comply with the requirements of the Internal Revenue Code (see 26 C. F. R. 402.501) shall be assigned identification numbers by the directors of internal revenue.

B. INFORMATION RELATING TO ACCOUNTS

1. *Reporting of information*

The field office shall furnish employers with information on established methods for reporting earnings. If a report contains insufficient information or notes an account number different from that on an employee's card, the Division will request further information from the employer. If the employer is unable to comply with the request but does furnish the employee's address, the Division will request the information from the employee. The Division shall correspond with the self-employed individual to obtain a missing account number.

If an employer or self-employed individual fails to reply to the Division's inquiries or continuously files incorrect information, the field office shall make an educational contact to improve reporting practices and responses to correspondence, and to secure the information.

2. *Statement of earnings*

By filing an *employee's request for statement of wages credited to old-age and survivors insurance account*, or a signed request giving his social security number and date of birth, an individual may receive a statement of earnings from the Bureau's Baltimore, Md., office. This statement will show a total of

earnings to date, the total earnings for each of the last 3 years, and the amount of earnings reported since the last complete year. Itemized statements will only be furnished when needed for purposes related to title II of the Social Security Act.

3. Wage discrepancies

Where the individual disagrees with the statement of earnings, he may request a revision thereof by filing a *statement of employment or self-employment*. This statement may be obtained at the Bureau's Baltimore, Md., office.

Field offices may conduct investigations of wage coverage questions that cannot be resolved through an examination of the Division's records. The Division will review the results of the investigation and inform the wage earner of its determinations.

An employee shall be sent a *letter notifying employee of an adverse adjustment to his wage record* to notify him of any adverse adjustment received subsequent to a wage statement previously sent him. The employee is requested to register his disagreement with the letter within 6 months after its receipt or within 3 years, 2 months, and 15 days after the year to be adjusted, whichever is the later.

4. Compensation credited under the Railroad Retirement Act combined with earnings covered by the Social Security Act

The Bureau and the Railroad Retirement Board shall exchange information regarding earnings and compensation to be combined with earnings credited under this act for purposes of determining benefits.

XII. ESTABLISHMENT, MAINTENANCE, AND REVISIONS OF EARNINGS RECORDS

A. DEFINITIONS

For purposes of this subsection—

1. "Year," when used with respect to wages, shall mean a calendar year; when used with respect to self-employment income, it shall mean taxable year. A taxable year is a calendar year unless a fiscal year (a year other than a calendar year, such as, from October 1952 to October 1953) is specified;

2. "Time limitation" shall mean a period of 3 years, 2 months and 15 days;

3. "Survivor" shall mean any of the following who survive the individual: spouse, former wife divorced, child, or parent;

4. "Earnings" shall mean wages paid to, and self-employment income derived by an individual; and

5. "Record of earnings" shall mean the Department's record of an individual's earnings and the periods in which the earnings were paid or derived. [42 U. S. C. 405 (c) (1); 20 CFR 404.801.]

B. RECORDS OF EARNINGS

1. Establishment and maintenance

The Secretary shall establish and maintain records of earnings of each individual and of the periods in which the earnings were paid or derived. [42 U. S. C. 405 (c) (2); 20 CFR 404.802.]

2. Requests for earnings information

Upon request for earnings information, the Secretary shall inform an individual or his survivor, or the legal representative of his estate, of the contents of the records and of his respective rights to request revision of the records. [42 U. S. C. 405 (c) (2); 20 CFR 404.803.]

3. Record revisions

(a) *Who may request and when.*—Any individual or his survivor may request the correction of an earnings record. The request must be made within the time limitation following any year, or any extensions allowed because of military service. [20 CFR 404.810.]

(b) *Revisions prior to the expiration of the time limitation.*—Prior to the expiration of the time limitation following any year, the Secretary, on his own motion or pursuant to a request for a revision, may correct any error or omission in his records. [42 U. S. C. 405 (c) (4); 20 CFR 404.805.]

(c) *Revisions after the expiration of the time limitation.*—After the expiration of the time limitation following any year, the Department may make revisions, but only—

(1) If an application for benefits was filed within the time limitation following any year and no decision has been made thereon;

(2) If a written request for the correction was made within the time limitation following such year and no final decision has been made thereon;

(3) To correct an error apparent on the face of the record;

(4) To transfer items properly creditable to this title, but erroneously credited to the Railroad Retirement Act, and vice versa;

(5) To correct fraudulent entries;

(6) To conform the records to social security tax return and State information returns. If the tax return is found incorrect, the wage record revision is limited to making the record more nearly correct. If the tax return is filed after the expiration of the time limitation following the taxable year, the self-employment income revision is limited to the amount of wages deleted as erroneously included in such taxable year;

(7) To correct errors in allocations to individuals or periods;

(8) To include wages paid to an individual by an employer in any period of a year, but not included in the Secretary's records;

(9) To enter items which, although remuneration under the Railroad Retirement Act, cannot be used by any person as a basis for benefits under that act; or

(10) To include a Federal or State statutory award paid prior to April 1, 1946, as a means of making an individual whole, and which evidences an intent to create an employment relationship by law, confer upon him the ordinary incidents of such a relationship, or protect an individual's right to wages. [42 U. S. C. 405 (c) (4); 20 CFR 404.806 and 404.807.]

(d) *Preservation of certain records.*—An amendment to the Social Security Act in 1948 required the use of the common-law rules of defining employer and employee in determining who are employees under the act. To prevent any possible retroactive nullification of certain wage credits the amendment specifically provided that—

(1) Wage credits reported to the Bureau of Internal Revenue with respect to services performed prior to June 14, 1948, shall not be deleted from the records, other than to conform the Secretary's records with the tax returns; and

(2) Wage credits established before June 14, 1948, by individuals who attained age 65 or died prior to October 1, 1948, shall not be deleted. [62 Stat. 438, § 2 (b); 20 CFR 404.813.]

(e) *Information to be submitted with request.*—(1) Where wages are involved the request shall set forth the calendar quarters believed in error, the alleged amount and time of payment, the name and address of the employers, and the nature of and place where the services were rendered.

(d) Where only self-employment income is involved, the request shall set forth the amount of alleged income in the taxable years believed in error, the nature and places of the individual's trade or business. If wages are also involved, the wage information required in (1) above shall also be included. [20 CFR 404.811.]

4. Notice of adverse revisions

Written notice of any adverse revision shall be given to an individual or his survivor with the following restrictions:

(a) *Self-employment income.*—Only the individual involved shall be given notice, except that his survivor shall be given notice if he or the individual has previously been notified of the amount of the individual's earnings for the period involved. [42 U. S. C. 405 (c) (6); 20 CFR 404.808.]

(b) *Wages.*—Only the individual involved shall be given notice, and then only if he has previously been notified of the amount of his wages for the period involved. A survivor shall be given notice, however, if he or the individual has previously been notified of the amount of the individual's earnings for the period involved. [42 U. S. C. 405 (c) (6); 20 CFR 404.809.]

5. Request for correction of adverse revision

A request for the correction of an adverse revision made by the Secretary on his own motion, may be submitted by the individual or his survivor within 6 months after the revision was entered or the mailing date of any notice of the revision, whichever is later, or within such extensions allowed for military service. [20 CFR 404.810.]

6. Request for hearing

After any change or refusal to make a requested change, and within the time specified by the Secretary, an individual or his survivor may request and shall receive a hearing thereon. The Secretary shall make findings of fact and a decision based upon the hearing and such revisions in the records as may be required. [42 U. S. C. 405 (c) (7).]

7. Review of Secretary's decisions

The decisions of the Secretary shall be reviewable in an appropriate United States district court.

XIII. PROCEDURES FOR APPLICATIONS FOR BENEFITS AND LUMP-SUM PAYMENTS ²¹

A. WHERE TO OBTAIN FORMS

Form may be obtained at any office of the Bureau of Old-Age and Survivors Insurance and any office maintained outside the United States by the United States Foreign Service.

B. WHO MAY EXECUTE APPLICATIONS

1. An applicant over 18 years of age who is mentally competent.
2. A legal guardian or representative of any applicant regardless of age.
3. An applicant over 16 years of age who is mentally competent and has no guardian or legal representative or who is not in the care of any person.
4. A person having in his care either a mentally incompetent applicant or an applicant under 18 years of age. This person may include the manager of an institution if applicant is under its care.

C. APPLICATION ON BEHALF OF ANOTHER

Where the application for benefits or lump-sum is made by someone other than the applicant, that person must file evidence of his authority. This evidence can be a certificate executed by a court of appointment or a statement describing the relationship and (if not a parent) the extent to which the applicant is under his care. The Administration may, at any time, require additional evidence.

D. PLACE OF FILING

Applications may be filed at an office of the Bureau of Old-Age and Survivors Insurance or with an employee of the Administration authorized to receive applications. Outside the United States, applications may be filed at any office maintained by the United States Foreign Service.

E. TIME OF FILING

1. For monthly benefits

(a) An application will not be accepted *more than* three months prior to the first month of entitlement. If an application is filed any time after the first month of entitlement it will be accepted as an application for benefit beginning with any of the six months immediately preceding in which he is entitled.

(b) An application is considered to have been filed when *received* at an office of the Administration except:

(1) The *date of postmark* will govern if benefits would otherwise be lost or impaired.

(2) The application will be deemed received as of the date within the *next 3 months* which will result in entitlement to the *greatest primary insurance benefit* and will not cause the loss of benefits for any month. If fixing an advance date would cause a delay in certification, the receipt date shall be the date of delivery unless otherwise requested or presumed.

(c) For the purposes of determining whether conditions of eligibility have been met, an application will be considered filed in the month in which benefits begin.

²¹ Authority: The Administrator shall have full power and authority to make rules and regulations and establish procedures appropriate to carrying out the Federal old-age and survivors insurance benefits provisions of the Social Security Act [42 U. S. C. 405 (a)].

2. Lump-sum payment

An application for lump-sum benefit must be filed within 2 years after the date of death of the insured individual, *except*:

(a) In respect to a person in military service or a surviving civilian relative of a person in military service entitled to a lump sum, the period of military service will not be computed in the 2-year period allowed. The period of military service commences on either October 17, 1940, or date of entry on active duty and ends at (1) death, (2) discharge, (3) report of death, or (4) 6 months after end of World War II. Persons serving in the Armed Forces include those serving with nations allied to the United States who were citizens of the United States, unless dishonorably discharged or if they do not intend to resume United States citizenship;

(b) Where the death of the insured individual while in military or naval service occurred outside the continental United States between June 25, 1950, and September 1950, application may be filed by a person equitably entitled within 2 years of interment in the United States;

(c) Where the death of the insured individual occurred outside the continental United States between December 6, 1941, and August 10, 1946, and application was filed prior to September 1952.

F. SUPPORTING EVIDENCE

The claimant must support the material allegations in his application (except earnings shown in the Bureau's records) by satisfactory evidence. The necessary application forms, instructions, report forms, and forms for proof are available at field offices, itinerant stations, and detached official stations, which shall assist claimants in preparing applications and obtaining proofs.

G. EXECUTION AND FILING OF REQUESTS AND NOTICES

Any request for a determination or decision relating to benefits or lump-sum payments or notices shall be signed by a person authorized to execute an application. These shall be filed at an office of the Bureau.

H. APPLICATIONS UNDER THE RAILROAD RETIREMENT ACT

An application filed with the Railroad Retirement Board on or after October 1, 1946, under the Railroad Retirement Act shall be deemed an application for benefits under this act. The date of filing is the date certified by the Railroad Retirement Board.

I. BUREAU RECORD OF REQUEST FOR BENEFITS OR LUMP SUM

1. When a person expresses to the Bureau an intention to claim benefits or lump sum and it *appears that his eligibility is doubtful*, a record will be made by the Bureau when some possibility of entitlement exists. This record will be deemed an application as of the date made if it is later found that a person was entitled provided an application on a prescribed form is also furnished.

2. When benefits are claimed on behalf of a spouse, parent, minor, or incompetent the names will be entered on the Bureau record. This will be deemed an application if it is later found that these persons are eligible provided an application on a prescribed form is also furnished.

3. The same rules shall apply where an intention to claim is expressed to the Railroad Retirement Board by an individual either on his own or another's behalf. Notice must be communicated to the Administration of persons named in the Board's record. The persons must be eligible at the time of records and an application on a prescribed form must be made.

J. ABANDONMENT AND WITHDRAWAL OF APPLICATIONS

1. Withdrawal

An individual may withdraw his application or request for revision by filing written notice prior to the Bureau's action. Further action will be taken only upon filing a new application or request.

2. Abandonment

When the Administration seeks additional information by written notice mailed to applicants last known address and this notice is *disregarded for 1 year*, the

application or request shall be considered abandoned. No further action will be taken unless a new application or request is filed or it is shown that disregard by the applicant was not within his control. [42 U. S. C. 405 (a) ; 402 (j) ; 20 CFR 403.701 ; 403.704.]

XIV. INITIAL DETERMINATIONS AND RECONSIDERATIONS

A. INITIAL DETERMINATIONS

1. *When made*

Bureau shall make findings of fact and initial determinations as to—

- (a) Benefits and lump-sum entitlements;
- (b) Whether benefits previously determined should be adjusted;
- (c) The termination of entitlement, including the last month of entitlement;
- (d) A parent's dependency on a fully insured individual. This determination must be made prior to the application for parent's benefits, but within 2 years after the insured individual's death, or such extensions allowed for military service; and
- (e) Whether an individual's wage record should be revised as to amount or time of payment.

The findings of fact shall set forth the pertinent facts and conclusions; the determination shall set forth the amount of entitlement and any adjustments to be made. Findings of fact and determinations shall be made whenever it appears to the Bureau that circumstances require an adjustment to be made [see sec. V, B hereof for bases of adjustments] or upon written request of a party concerned.

2. *Effect of applicant's failure to submit evidence*

Whenever an applicant fails to submit necessary or requested evidence to support a claim for benefits or a lump-sum death payment, the initial determination shall disallow the claim and specify the conditions of entitlement not established.

3. *Notice of initial determination*

Written notice of an initial determination shall be mailed to the party concerned at his last known address. No notice is necessary where entitlement to benefits has ended because of death. If an application is not approved as submitted, the basis for such determination shall be stated and the party informed of his right to a reconsideration and hearing on the determination, unless the determination is to effect a reduction or termination based upon facts reported to the Bureau by the party himself.

4. *Effect of initial determination*

The initial determination shall be final and binding upon the party concerned unless it is reconsidered or revised or a hearing held thereon.

B. RECONSIDERATIONS

1. *Right to reconsideration*

A party dissatisfied with an initial determination may request a reconsideration thereof or that a hearing be held thereon before a referee (for hearing see sec. XV below) if certain conditions exist. A request for reconsideration shall not waive the right to a hearing.

2. *Conditions for reconsideration*

The Bureau shall reconsider an initial determination:

- (a) If a party to the determination files a written request for consideration prior to a request for a hearing;
- (b) Except as to a wage-record revision, if prior to the request for a hearing a written request is filed by an individual who shows that his rights to benefits or a lump sum may be affected by the determination; and
- (c) If the determination involved a wage-record revision and a request for a reconsideration thereof was made by the widow, child, or parent of an individual after the individual's death, prior to a request for a hearing thereon.

3. Time and place of filing request

The request for reconsideration shall be filed at a Bureau office within 6 months from the date of mailing the initial determination notice, unless such time is extended. (See 9 below.)

4. Parties to the reconsideration

The parties to the initial determination and any other individual who requests a reconsideration shall be parties to the reconsideration.

5. Notice of reconsideration

The Bureau shall give written notice to the party concerned (at his last known address) of any proposed reconsideration, if someone other than such party requests the reconsideration. The notice shall be sent prior to the making of any adverse revision of the initial determination and the party shall be given reasonable opportunity to present evidence or contentions relative to the determination.

6. Reconsidered determination

(a) The Bureau shall reconsider the initial determination, the findings and evidence upon which it was based, and any other evidence submitted to or obtained by the Bureau, and shall affirm or revise the findings and the determination in question.

(b) Where the reconsideration involved matters determinable by the Administrator, War Shipping Administrator, or the Bonneville Power Administrator, the Bureau shall accept as conclusive determinations of the Administrator concerned, unless the information supplied is missing, incomplete, or questionable. In such case the Bureau shall request written certification of the needed information by the Administrator concerned.

7. Notice of reconsidered determination

Written notice of the reconsidered determination shall be mailed to the parties concerned at their last known addresses. It shall state the basis for the determination and shall inform them of their right to a hearing.

8. Effect of reconsidered determination

The reconsidered determination shall be final and binding upon all parties to the reconsideration, unless a hearing is requested or a revision is effected because of an error of fact or law, or fraud or misrepresentation. [42 U. S. C. 405 (b) ; 20 CFR 403.706-403.708.]

9. Extension of filing time

A request for reconsideration of an initial determination may be filed after the time limitation has passed, if a petition stating the reasons why the request was not filed within the time limitation is filed for an extension of time. For good cause shown, the Bureau may grant an extension, except where the sole purpose of the request for reconsideration is to revise wage records or make a finding of wages. Where the request is for other purposes and the Bureau has extended the filing time, incidental wage record revisions or findings of wages must conform to these regulations. (See sec. XII hereof.) [20 CFR 403.711.]

XV. HEARINGS

A. RIGHT TO A HEARING

Any party to an initial determination and to the reconsideration, if there was one, shall be entitled to a hearing in respect to monthly benefits, lump-sum death payments and wage records if he files a request in accordance with the following subsection.

B. METHOD OF FILING REQUEST FOR A HEARING

The request for a hearing shall be in writing and filed at an office of the Bureau, or with a referee, or with the office of the Appeals Council in the Social Security Administration. If no request for reconsideration has been filed, the request for a hearing must be filed within 6 months of the date of the initial determination; and if a request for a reconsideration has been filed (1) the request for a hearing may be filed within any time prior to the mailing of notice of the reconsidered determination if such notice has not been mailed within 45

days after filing a request therefor; or (2) within 3 months after the date of mailing notice of the reconsidered determination unless extended because of the provisions of the Soldiers and Sailors Civil Relief Act or the time has been extended upon petition to the Bureau upon showing of good cause.

C. PARTIES TO A HEARING

Parties to the hearing other than the covered individual in any matter except the Administration's wage records, may be anyone who would be prejudiced by the determination. With respect to wage records, the widow, child, or parent may be, after death of the covered individual, a party to the hearing upon filing a written notice thereof.

D. THE REFEREE AND THE CONDUCT OF THE HEARING

1. The referee for any hearing shall be appointed by the chairman of the Appeals Council. He may designate as referee a member of the Appeals Council. The regional director of the Social Security Administration may conduct hearings in the Territories of Alaska or Hawaii.

2. The referee shall be free of personal prejudice or partiality with respect to any party to the hearing. Objections to the referee shall be made by the party as early as possible. The referee may withdraw, or choose not to withdraw. If he does the latter, the objecting party may, after the hearing present his objections to the Appeals Council.

3. The referee shall fix the time and place of the hearing and send written notice at least 10 days prior to such time to the last-known address of the parties or by personal service. Objections to such arrangements must be written and filed as early as possible. The referee may change the time and place of the hearings on his own motion or for good cause. Reasonable notice must be given to all parties. He may also adjourn, postpone, or reopen a hearing to receive additional evidence at any time before the mailing of the notice of decision.

4. At any time during the hearing and before the initial determination has been made, the referee on his own motion or upon request of any party, may raise an issue on any matter not yet the subject of an initial determination and a hearing shall be arranged on that issue in the same manner as on the original issue.

5. The referee, a member of the Appeals Council, or other duly authorized employee of the Administration, may issue subpoenas (see sec. XVII) for the attendance and testimony of witnesses and the production of books, etc. A party who desires the issuance of a subpoena shall, within 5 days of the hearing, file a written request with the referee or field office stating the document or persons needed, their location, and the pertinent facts the party expects to establish by the use of such subpoena. Such subpoenas shall be issued in the name of the Secretary of Health, Education, and Welfare.

6. Hearings shall be open to the parties and to such other persons as the referee deems necessary and proper. The referee shall inquire fully into the matter at issue. If he believes that there is other evidence available which has not been presented he may adjourn the hearing, or at any time prior to mailing notice, he may reopen the hearing. The rules of evidence applicable in court shall not apply to a hearing. Witnesses shall testify under oath or on affirmation. The parties shall be allowed a reasonable time for oral argument or for the filing of briefs. The order in which the contentions and evidence shall be presented shall be at the discretion of the referee, but shall afford a reasonable opportunity for a fair hearing. A stenographic record shall be taken but it shall be transcribed only at the direction of the referee or Appeals Council when the case is certified to or reviewed by the latter.

7. When two or more hearings are to be held, and the same or substantially similar evidence is relevant, joint hearings may be held. A separate decision, however, will be made in each case. When one or more new issues are raised, such issues may be consolidated for hearing with the issues pending, and a single decision given on all.

8. The parties may waive, in writing, their right to appear and present evidence, but the referee, if he believes it reasonably necessary to the conduct of the case, may require such hearing to be held. When the hearing has been waived and no hearing held, the referee shall prepare a record of all relevant evidence used in the initial determination and reconsideration.

9. *With the approval of the referee* a request for a hearing may be dismissed (a) at any time prior to the mailing of notice of decision, upon written request of a party thereto, or oral statement at the hearing, or (b) upon abandonment by the party who filed the request which consists (1) in nonappearance at the hearing without good cause, or (2) within 15 days after the mailing of notice to a party to show cause, he fails to respond.

E. DECISION OR CERTIFICATION TO APPEALS COUNCIL

1. As soon as practicable after the close of a hearing, the referee shall make a decision or certify the case to the Appeals Council for decision. The referee's decision shall be in writing, be based on the evidence adduced, and shall contain findings of facts and a statement of reasons. If new and material evidence develops, not before the Bureau when an initial or reconsidered determination was made, the referee may, in his discretion, remand the case to the Bureau for further consideration. The Bureau may revise its previous determination or allow it to stand, in which case the Bureau shall return the case to the referee or certify it to the Appeals Council. If the Bureau makes a revision, written notice containing findings of fact and a statement of reasons shall be mailed to the parties.

2. The referee's decision, or the revision of the Bureau, shall be final except (a) where it is reviewed by the Appeals Council, or (b) revised for error of fact or law, or where fraud or misrepresentation are shown, or (c) if a request for review is denied by the Appeals Council but a civil action is filed in a district court of the United States. (See sec. XVI B.) [22 U. S. C. 405 (b); 20 CFR 403.709.]

XVI. REVIEW

A. APPEALS COUNCIL

1. *Cases certified by the referee*

When a referee certifies a case to the Appeals Council without a decision, notice of such action shall be mailed to the parties concerned at their last-known addresses.

2. *Referee's decision or Bureau's revised determination*

Any party concerned may request the Appeals Council to review a referee's decision or a revised determination by the Bureau. The request must be filed within 30 days after the notice of the decision or revised determination has been mailed. The Appeals Council may, in its discretion, decline a review. It may also on its own motion, and within 90 days after the notice of the decision or revised determination is mailed, review a decision or revised determination. Notice of any action taken by the Appeals Council shall be mailed to all parties concerned.

3. *Review procedure*

Whenever a referee certifies a case to the Appeals Council or the Council agrees to review a decision or revised determination, a transcript of the evidence or a summary thereof, or, where the hearing was waived, copies or a summary of the contents of the relevant documents shall be made available to any party on request.

The parties shall have reasonable opportunity to appear before the Council for oral argument and may file briefs, provided there are sufficient copies filed for the convenience of the parties.

4. *New evidence*

Additional evidence will only be received by the Council if it feels that such new evidence is material and may affect the decision. Notice that such new evidence is to be presented shall be sent to the parties concerned.

5. *Decision*

The Appeals Council shall in all instances make a decision, except where the case is remanded to the referee for a substantial failure to comply with procedural requirements. The decision shall be based on the evidence adduced at the hearing, or the documents of the case where the hearing was waived, and any new evidence received by the Council. The decision shall be in writing and shall be sent to the parties concerned.

6. Effect of decision

The Appeals Council's decision, or the referee's decision or the Bureau's revised determination where the Council has refused review, shall be final unless—

(a) A civil action is filed in a United States district court; or

(b) A revision is made for an error of fact or law, or because of fraud or misrepresentation.

7. Dismissal of proceedings

With the approval of the Appeals Council, any proceeding before the Council may be dismissed at any time. Notice thereof shall be mailed to the parties concerned.

8. Extension of filing time

Any party to an initial determination, a reconsidered determination, a revised determination of the Bureau, a decision of the referee, or a decision of the Appeals Council may petition for an extension of the filing time even though the time limitation has passed. The petition shall state the reasons why the request was not filed within the time limitation. Upon good cause shown, the Bureau may grant an extension, except where the sole purpose of the request to be filed is to revise wage records or make a finding of wages. Where the extension has been granted and the request is for other purposes, incidental wage record revisions or findings of wages must conform to these regulations. (See sec. XII hereof.)

9. Revision of errors

Revisions may be made at any time for a clear error of fact or law, or for misrepresentation or fraud. Notice of any revision shall be sent to the parties concerned stating the basis on which the revision is made. Except for extensions allowed for military service, a revision shall be final and binding, unless a request for a hearing thereon is filed within 60 days after the mailing of the notice of revision. [42 U. S. C. 405 (b) and (h); 20 CFR 403.710-403.711.]

B. BY COURTS

1. Time and jurisdiction

An appeal for the review of a final decision of the Secretary may be made within 60 days after the decision is rendered, or such further time as the Secretary allows. The appeal shall be filed in the United States district court where the plaintiff resides or has his principal place of business, or failing both, to the District Court for the District of Columbia. The appeal shall be made without regard to the amount in controversy.

2. Review procedure.

The Secretary shall file an answer to the appeal and make as part thereof a certified copy of the transcript of the record which shall include the evidence upon which the findings of fact and the decision are based. The findings of fact, if supported by substantial evidence, shall be conclusive. On motion by the Secretary before answer, the court shall remand a case for further action. The court may at any time, on good cause shown, order the Secretary to take additional evidence. Such additional evidence shall be taken and the Secretary shall affirm or modify his findings of fact or decision or both, accordingly. A transcript of the additional record shall be filed together with the Secretary's additional findings of fact and decision. The new findings of fact and decision shall be subject to review to the same extent as the original findings of fact and decision.

3. Decision of court

Based on the pleadings and the record, the court may enter a judgment affirming, modifying, or reversing the Secretary's decision, with or without remanding the case for rehearing. Where an adverse decision is based on the individual's failure to submit proof conforming with the regulations, the court shall restrict its review and decision to the questions of conformity to the regulations and the validity of the regulations.

4. Effect of judgment

A judgment rendered by the court shall be final and conclusive, but subject to the same review applicable to any civil action judgment.

5. *Bar against certain civil actions*

No original action against the United States, the Secretary, or any officer or employee thereof shall be brought in a United States district court to recover on any claim arising under this Act. A claimant must seek his remedies through the Department of Health, Education, and Welfare. [42 U. S. C. 405 (g).]

XVII. SUBPENA POWERS

A. ISSUANCE OF SUBPENAS

In any proceeding provided for herein, the Secretary shall have the power to issue subpoenas requiring the attendance of witnesses and the production of evidence from any place in the United States, its Territories or possessions. A subpoena may be served personally upon the individual or sent by registered mail to his last known dwelling or business address. Subpoenaed witnesses shall receive the same fees and mileage paid Federal district court witnesses. [42 U. S. C. 405 (d).]

B. CONTEMPTS

The district court wherein the subpoenaed witness resides or transacts business is authorized, upon application by the Secretary, to enforce the subpoena. A failure to obey the court's enforcement order may be punished as contempt of that court. [42 U. S. C. 405 (e).]

C. SELF-INCRIMINATION

Although no witness shall be excused from attending or producing evidence at a proceeding for which he has been subpoenaed, he shall not be prosecuted or subjected to any penalty or forfeiture on account of any testimony or evidence which he is compelled to give in any such proceeding, provided he first claims his privilege against self-incrimination. This exemption, however, shall not extend to perjury committed by a witness in testifying at such a proceeding. [42 U. S. C. 405 (f).]

XVIII. CERTIFICATION FOR PAYMENT

A. PAYMENT AFTER DETERMINATION OR DECISION

Upon the Secretary's final decision or a final court judgment that a person is entitled to any payments under old-age and survivors insurance, the Secretary shall certify to the Managing Trustee the name and address of such person, the amount of the payments and the time at which they should be made. The managing trustee, through the Division of Disbursement of the Treasury Department, shall make payment accordingly. The Secretary may withhold certification of a payment where—

1. A reconsideration, hearing, or review, is being conducted, or a civil action has been filed in a district court with respect to the determination or decision on which payment is based; or

2. A pending application for benefits is inconsistent with such a payment.

Certification shall not be withheld, however, unless there is sufficient evidence to raise a substantial question as to the correctness of the determination or decision and the Secretary shall certify that amount of the payment which is not in question. Acceptance of any payment shall not prejudice the rights of an individual to reconsideration, hearing, or review, as to the additional payment claimed.

B. PAYMENT TO TRANSFEEE OR ASSIGNEE

The Secretary shall not certify any amount to the assignee or transferee of an individual entitled to payment under old-age and survivors insurance, nor shall the Secretary certify any payment to a person claiming such amount by virtue of an execution, levy, attachment, garnishment, or by bankruptcy or insolvency proceeding against such person. [42 U. S. C. 405 (i); 20 CFR 403.712.]

C. COMPETENCY OF THE INDIVIDUAL

1. When it appears to the Secretary that the interest of the individual entitled to payment would be better served, he may certify for payment any amount, regardless of the individual's legal competency or incompetency, to the individual

directly or to a relative or other person for the benefit of the individual. The Secretary may withhold certification until a guardian, committee, or other legal representative has been appointed duly authorized to receive payment. Before any amount will be certified for payment to such a representative, he must submit evidence to the Secretary of his authority to receive payment or his relationship to the individual on whose behalf the payment will be made. The Secretary may at any time request evidence of the continued existence of the authority or relationship. If the person to whom payment is made is not a legally appointed representative, the Secretary may request an accounting of funds received and shall discontinue further payments if the request is not complied with. [42 U. S. C. 405 (k) ; 20 CFR 403.705.]

2. Any payment shall be a complete settlement and satisfaction of any claim, right, or interest in and to such payment if—

(a) Made after December 31, 1939, in conformity with the procedure set out above; or

(b) Made before January 1, 1940, to, or on behalf of, a legally incompetent individual; or

(c) Made after December 31, 1939, to a legally incompetent individual without knowledge of such incompetency by the Secretary before certification. [42 U. S. C. 405 (k).]

XIX. REPRESENTATION OF CLAIMANTS BEFORE THE SECRETARY OF THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

A. APPOINTMENT OF REPRESENTATIVES

A party to an initial determination, reconsideration, hearing, or review may appoint a qualified representative for such proceeding. Notice of appointment shall be made in writing, signed by the appointing party, acknowledged by the representative, and filed at an office of the Bureau, with a referee or with an office of the Appeals Council.

B. QUALIFICATIONS OF REPRESENTATIVES

Any individual may act as a representative if appointed by the interested party provided he is not otherwise prohibited by law or disbarred or suspended from acting as a representative before the Social Security Administration.

C. AUTHORITY OF REPRESENTATIVES

The representative can make any request or notice relative to the proceedings, present evidence, and contentions and obtain information regarding the claim of the interested party. He may also receive notices or requests on behalf of the party. The representative cannot, however, execute an application for benefits or lump-sum payment, a request for reconsideration, hearing, or review unless he is a person otherwise authorized to perform such functions.

D. PLEAS FOR SERVICES

Where the representative is an attorney admitted to practice before a State or Federal court and is not prohibited by law from charging a fee, he may, upon authorization from the Bureau, referee, or Appeals Council, be allowed to charge a maximum of \$10.

Where the representative is not an attorney, special authorization must be given by the Bureau, referee, or Appeals Council. The representative must show that he is not prohibited from charging a fee, that he has special qualifications to assist the interested party, and has rendered services to the party. The maximum amount of the fee permitted, if any, should be determined in each case by the Bureau, referee, or Appeals Council.

E. RULES GOVERNING REPRESENTATION AND ADVISING

No attorney or other person shall—

1. willfully and knowingly deceive, mislead, or threaten, with intent to defraud, any claimant, prospective claimant, or beneficiary;

2. Knowingly charge or collect any fee not authorized or in excess of the maximum authorized;

3. knowingly make or participate in making or present any false statement or claim in regard to the amount of wages paid to an individual, time of payment or material fact affecting the individual's rights;

4. divulge any information furnished or disclosed to him by the Commissioner relating to the claim or prospective claim of another person unless specifically authorized by regulations of the Commissioner.

Any person engaging in any of the preceding practices shall be deemed guilty of a misdemeanor and, upon conviction, shall be fined a maximum of \$500 or imprisonment for not more than 1 year or both.

F. PROCEEDINGS FOR SUSPENSION OR DISBARMENT

1. Whenever the Commissioner has knowledge or information that an individual has violated any of the rules aforementioned, a written statement shall be mailed to such individual at his last known address together with notice to file an answer within 30 days. This period may be extended by the Commissioner if good cause is shown.

2. After the expiration of time for giving notice a time and place for a hearing shall be fixed and notice mailed to the individual more than 15 days prior to the date of the hearing.

3. The hearing is conducted by the Commissioner or his representatives. Witnesses shall be sworn and evidence recorded. If the individual has filed an answer he may present evidence. If he has not filed an answer he may not present evidence but may appear to set forth his contentions respecting the sufficiency of evidence presented. The Commissioner will determine on the basis of the evidence produced whether or not the individual shall be deemed not qualified to act as a representative or to charge any fee for services. Any disqualification may be limited to a specified period of time.

4. The determination of the Commissioner shall be made in writing and mailed to the individual affected. [42 U. S. C. A. 406; 20 CFR, ch. III 403.713.]

XX. EVIDENCE

While the type and time of submission of evidence of eligibility is governed by the provisions of this subpart, the Department may require additional evidence to support or clarify a claim. If the evidence is not forthcoming, the claim will be considered as not established. The Department may also require at any time, under penalty of suspension of benefits, a certified statement that no event has occurred to cause benefits to be adjusted or terminated.

Evidence may be filed either at an office of the Old-Age Assistance Bureau, or with an employee of the Department authorized to receive such evidence; or if the person is not residing in the United States, at an office of the United States Foreign Service outside the United States.

Evidence of the Railroad Retirement Board with respect to a claim for railroad retirement benefits may be used in determining eligibility for social security benefits, if the claim is transferred to the Department. If the Board has completely adjudicated a claim before its transfer, the Department may initially adopt the Board's determination (except as to compensation or periods of service), or make its own determination. [42 U. S. C. 405 (a); 20 CFR 404.701.]

A. EARNINGS

1. *The Department's record*

In a proceeding before the Department, or any court, the Department's records shall be evidence of earnings (including wages and self-employment income) and of the time of their crediting. These records shall be conclusive evidence (except for revisions subsequently allowed) after the expiration of the time limitation (3 years, 2 months, and 15 days) following any year. The absence of a wage entry for any period shall be presumptive evidence that no wages were paid during that period. The absence of a self-employment income entry for any period of a year, however, shall be conclusive evidence that the individual had no such income during that period, unless he filed a tax return of such income prior to the expiration of the time limitation following such year.

Other probative evidence of earnings may be submitted, but an applicant is not required to submit any evidence of earnings unless requested by the Department. [42 U. S. C. 405 (c) (3); 20 CFR 404.702 and 404.804.]

2. *Federal agency record*

Where employees of the United States or any wholly owned instrumentality thereof (including the War Shipping Administration and the Bonneville Power Administration) are involved, determinations by the agency or instrumentality as to services performed, periods of service, remuneration, and payment periods, as evidenced in the agency or instrumentality's tax returns [26 U. S. C. 1420 (e)], shall be accepted by the Secretary as final and conclusive. The head of any agency or instrumentality is directed to certify, upon written request of the Secretary, any determination made for the Secretary. Civilian employees not compensated from funds appropriated by Congress and performing services in certain Armed Forces exchange services and allied activities conducted at Defense Department installations, shall be considered employees of a Government instrumentality and the Secretary of Defense deemed the head thereof. [42 U. S. C. 205 (p) ; 20 CFR 403.706 and 404.812.]

B. AGE

If the Department is not satisfied that its records prove the date of birth, evidence to support the date must be submitted. In determining the weight of such evidence, consideration shall be given to its general probative value and to its position in the following enumeration: Public record of birth; church record of birth or baptism; Census Bureau notification of registration of birth; hospital birth certificate; flyttningsbetyg or similar foreign record; physician's or midwife's birth record; certification, on approved form, of Bible or other family record; naturalization record; immigration record; military record; passport; school record; vaccination record; insurance policy; labor union or fraternal record; marriage record; other evidence of probative value.

In lieu of the original record (except a Bible or other family record) a copy of the original record, or a certified statement as to the date of birth shown therein may be submitted. Additional information may also be required where the evidence submitted is of recent origin, or not convincing. [20 CFR 404.703.]

C. DEATH

1. *Recorded death*

Claims based on deceased individuals shall be accompanied by evidence as to the time, place, and fact of death of such individual, or of any other person relevant to the claim. Such evidence shall be—

(a) A certified copy of the public record of death, coroner's report of death, or verdict of the coroner's jury of the State or community where the death occurred, or an authenticated statement of the contents of such record; or

(b) A statement of the funeral director, attending physician, or intern of the institution where the death occurred; or

(c) A certified copy of an official report or finding of death made by any United States agency or department authorized or requested to make such report or finding in the administration of any law, or a certified statement of the contents of such report or finding. A finding of presumptive death by the Department of Defense with respect to a person missing, or missing in action (U. S. C. 50 App.: 1005), however, shall be accepted only as evidence of the fact of death and not the date of death; or

(d) The signed statement of two or more persons, having personal knowledge of the death, setting forth the place, date, and cause of death; or

(e) If the death occurred outside the United States: (1) An authenticated report by the United States consul, or other State Department agent, of such death; or (2) A certified copy of the public record of death authenticated by the United States consul, or other State Department agent; or

(f) Other probative evidence. [20 CFR 404.704.]

2. *Presumption of death*

The unexplained absence of an individual from his residence for a period of 7 years shall raise a presumption of death, if there is no evidence to the contrary. [20 CFR 404.705.]

D. MARRIAGE

1. *When evidence required*

A wife, husband, widow, widower, or other person (when marriage is a relevant factor) applying for benefits must file supporting evidence as to the time,

place, and fact of the marriage, and the termination of any former marriage. [20 CFR 404.706.]

2. Ceremonial marriage

A ceremonial marriage may be proved by the original certificate, a copy of the public or church record of the marriage, or a certified statement as to the marriage. If none of these are available, the reason therefor must be given, and the signed statement of the person who performed the marriage ceremony or other probative evidence may be submitted.

If the claim is for a lump-sum payment to a widow or widower, a signed statement by the applicant that he or she was ceremonially married to the person upon whom the claim is based may be accepted. If the claim is for a husband's or wife's monthly benefits, such a statement may also be accepted, but only if confirmed in writing by the person upon whom the claim is based. [20 CFR 404.707.]

3. Common-law marriage

A common-law marriage shall be proved as follows:

- (a) If both parties to the marriage are alive, by their signed statements and those of two blood relatives as to the existence of the marriage;
- (b) If one party is deceased, by the signed statements of the survivor and two blood relatives of the deceased party; or
- (c) If both parties are deceased, by the signed statement of a blood relative of each party.

Where one or both parties are deceased and written proof is submitted that the statement of a blood relative is not reasonably obtainable, the statement of another individual may be submitted. If none of this evidence is obtainable, the reason therefor shall be stated, and other probative evidence submitted.

Corroborative statements may be waived by the Administration if (1) the parties entered into a formal marriage ceremony which was void because of an existing impediment, (2) the impediment was later removed, (3) under the applicable State law, continued cohabitation as husband and wife and/or a subsequent marriage agreement resulted in a valid common-law marriage, and (4) the parties continued to live as husband and wife until the application was filed or the death of one of them. [20 CFR 404.708.]

4. Termination of prior marriage

Upon request and where the validity of an alleged marriage depends upon the termination of a former marriage, a certified copy of the decree dissolving the former marriage or evidence of the death of the other party to the marriage shall be submitted. If this evidence is not available, the reason therefor shall be stated and other probative evidence submitted. [20 CFR 404.709.]

5. Marriage and divorce of former wife divorced

A former wife divorced seeking benefits must file a certified copy of her divorce decree. If this evidence is not obtainable, she shall state the reason therefor and submit other probative evidence. Upon request, she will also submit evidence of the marriage (see 20 CFR 404.707 or 404.708). [20 CFR 404.710.]

E. PARENT-CHILD RELATIONSHIP

1. When evidence required

Evidence of a parent-child relationship must be filed where its existence affects eligibility for benefits. [20 CFR 404.711.]

2. Blood relationship

Evidence required to prove age shall be submitted to validate parent-child blood relationships (see 20 CFR 404.703), provided, that the public, church, or hospital record of birth or baptism which shows the child's name but not that of the parents and the relationship, may be submitted as supporting evidence of the relationship, if the surnames were the same at the time of the birth and there is no conflicting evidence. [20 CFR 404.712.]

3. Where contract to adopt alleged

The contract to adopt shall be submitted if it is claimed that the child has the status of a child under the applicable State law. If the contract is not in writing, or if it is in writing but cannot be produced, the applicant shall state the reason therefor and submit other probative evidence. In addition statements of both the natural or adopting parents, if available, and other probative evidence, setting out the circumstances of the child-adoptive parent relationship, shall be submitted. [20 CFR 404.713.]

4. Adoption

A certified copy of the court order or decree of adoption shall be submitted. If such evidence is not obtainable, or cannot be obtained without a court order, it shall be so stated and other probative evidence establishing the granting of the decree or order submitted. If the State of adoption does not require a court order or decree, a certified copy of the public record of the adoption will suffice. If no such record is required, the original adoption document shall be submitted. If this document is not available, an authentic copy thereof with the reason it is not available shall be submitted. [20 CFR 404.714.]

5. Steprelationship

Includes evidence required to establish the blood or adoption relation between the stepparent's spouse and the child (see 20 CFR 404.712-404.714) and evidence of the marriage of the stepparent and such spouse (see 20 CFR 404.707-404.709). [20 CFR 404.715.]

F. "LIVING WITH"

"Living with" shall be proved by—

1. A signed statement of the husband and wife that they were living together, giving the address, at the time the claim was filed. If there was a temporary separation, they shall state their respective residences during its existence, the reason therefor, its present duration and how long they expect it to continue. This same statement shall be filed by a widow or widower with respect to the deceased spouse;

2. A certified copy of the court order or decree directing support to a husband or wife, and a certified statement that the order or decree has not been modified or revoked prior to the time of the application or death in question; or

3. Statements by the husband and wife acknowledging regular support to the husband or wife, as the case may be, and describing the amount, times, and manner of making the contribution. This same statement shall be filed by a widow or widower with respect to the deceased spouse.

If such evidence is not obtainable, the reason therefor shall be stated and other probative evidence submitted. [20 CFR 404.716.]

G. RECEIPT OF SUPPORTS

1. By husband

Statements by the husband and wife that the husband was receiving half his support from his wife at the time of the wife's entitlement. These statements shall also set forth, as of the time noted and for 1 year prior thereto, the expenditures for the husband's support, his income, and other contributions and their sources. Such proof must be submitted within 2 years after the month of the wife's entitlement. If such evidence is not obtainable, the reason therefor shall be stated and other probative evidence submitted. [20 CFR 404.717.]

2. By widower

A widower shall submit a statement that he was receiving half his support from his deceased wife at the time of her death or month of entitlement. This statement shall set forth, as of the time noted and for 1 year prior thereto, the expenditures for the husband's support, his income, and other contributions and their sources. If such evidence is not obtainable, the reason therefor shall be stated and other probative evidence submitted. A widower's proof must be submitted within 2 years after the wife's death or the month of the wife's entitlement. [20 CFR 404.718.]

3. By former wife divorced

A former wife divorced shall submit the written agreement or a certified copy of the court order granting the support, and a statement that at the time of her divorced husband's death she was receiving half her support pursuant to the agreement or court order. This statement shall also include, as of the time noted and for 1 year prior thereto, the expenditures for her support, her income, and any other contribution to her support and its source. If any of this evidence is not obtainable, the reason therefor shall be stated and other probative evidence submitted. [20 CFR 404.719.]

4. By parent

A parent shall submit a statement that he was receiving half his support from the deceased individual upon whom he bases his claim at the time of such individual's death. This statement shall set forth, as of the time noted and for

1 year prior thereto, the expenditures for the parent's support, his income, and contributions and their sources. If such evidence is not obtainable, he shall state the reason therefor and submit other probative evidence. A parent's proof must be submitted within 2 years after the individual's death. [20 CFR 404.720.]

H. DEPENDENCY

1. *When evidence required*

See 20 CFR 404.722-404.724 for evidence required. [20 CFR 721.]

2. *Of child on father or adopting father*

A person having personal knowledge of the relationship shall submit a signed statement that at the time of the child's application or the father's (including adopting father) death—

(a) The child was living with the father. The statement shall set forth their address, or if there was a temporary separation, their respective addresses, the reason therefor, the length thereof, and its expected duration; or

(b) The father was contributing to the child's support, and the amount, times, and manner of such contributions; or

(c) The child had not been adopted by another, and either was not living with or receiving more than half his support from a stepfather. If a stepfather was contributing to the child's support, the statement of contributions required as evidence of the child's dependency on the stepfather (20 CFR 404.723) shall also be submitted. [20 CFR 404.722.]

3. *Of child on stepfather*

A person having personal knowledge of the relationship shall submit a signed statement that at the time of the child's application or stepfather's death—

(a) The child was living with the stepfather. The statement shall also set forth their address, or if there was a temporary separation, their respective addresses during the separation, the reason therefor, the length thereof, and its expected duration; or

(b) The child was receiving at least half his support from the stepfather. This statement shall also set forth, as of the time specified and for at least 1 year prior thereto, the expenditures for the child's support, the child's income, and any other contribution to the child's support and the source thereof. If the child was receiving his entire support from the stepfather, a statement to that effect will suffice. [20 CFR 404.723.]

4. *Of child on mother, adopting mother, or stepmother*

No supporting evidence is required to prove a child's dependency on his mother (including adopting mother), if the mother was currently insured at the time of her death or the child's application. If, however, the mother was not currently insured, or is the stepmother of the child, a person having knowledge of the relationship shall submit, as of the time of the child's application or the mother's or stepmother's death and for 1 year prior thereto, a statement of expenditures for the child's support, the child's income, and any other contribution to the child's support and its source, and the name and address of the person with whom the child was living. If the child was not living with his mother or stepmother, the statement shall set forth whether the separation was temporary, the address of each, the reason for the separation, and its length, and expected duration. [20 CFR 404.724.]

I. CARE OF CHILD

1. *By wife under 65*

Signed statements of the husband and wife as to whether the wife's care of the child (entitled to a child's insurance benefits) is individual or jointly with the husband and whether the child is living with the wife. If the child is not living with the wife, the statements shall set forth the reason for the separation, its present and expected duration, with whom the child is living, the sources of the child's support and the extent of each, and the extent of the wife's care.

If the child is not living with the wife or the husband, the wife shall submit a signed statement of the person with whom or an official of the institution where the child is living, setting forth the sources of the child's support and the extent of each, and the extent of the wife's care. A certified copy of any court order or written agreement as to the child's custody shall also be submitted.

If any of this evidence is not obtainable, the reason therefor shall be stated and other probative evidence submitted. [20 CFR 404.725.]

2. *Widow or former wife divorced*

An applicant for mother's benefits shall file a statement as to whether she has in her care and living with her, a child of a deceased husband or deceased divorced husband upon whom she bases her claims. If the child is not living with her, the statement shall give the reason for the separation, its present length and expected duration, with whom the child is living, and the extent of her own care and support of the child. A statement shall also be filed by the individual with whom or an official of the institution wherein the child lives giving the sources of the child's support and extent of each, and the extent of the mother's care. [20 CFR 404.726.]

If any of the above evidence is not obtainable, the applicant shall state the reason therefor and submit other probative evidence.

J. PAYMENT OF BURIAL EXPENSES

Itemized and receipted statements of the suppliers of goods or services for the burial, showing the total thereof, the unpaid amounts, and the individuals paying any portion thereto and the amounts and dates of such payments.

The applicant shall state his connection with the deceased, the total burial expenses, the amount the applicant paid, the amount remaining unpaid, and any cash or property he has received or will receive as reimbursement.

If any of the above evidence is not obtainable, the applicant shall state the reason therefore and submit other probative evidence. [20 CFR 404.727.]

GRANTS-IN-AID OF STATE PUBLIC ASSISTANCE PROGRAMS²²

PART ONE—GRANTS TO STATES FOR OLD-AGE ASSISTANCE

I. GENERAL

Grants-in-aid for old-age assistance²³ are made to States which have State plans approved by the Secretary of Health, Education, and Welfare. These grants are authorized on an annual basis from appropriations for that purpose. [42 U. S. C. 301.]

II. STATE OLD-AGE ASSISTANCE PLANS

A. In order for a State to qualify for old-age assistance, certain standards must be met in a State plan. These include—

1. Provision that the State plan shall be in effect in all political subdivisions of the State; administration by such subdivision must be in strict conformity with the State plan;

2. Provision for financial participation by the State;

3. Provision for either the establishment or designation of a single State agency to administer the plan, or provision for the establishment or designation of a single State agency to supervise administration of the plan;

4. Provision for granting an opportunity for a fair hearing before the State agency to any individual whose claim for old-age assistance is denied or not acted upon with reasonable promptness;

5. Provision for such methods of administration as are found by the Secretary to be necessary for the proper and efficient operation of the plan. (These methods of administration should include methods relating to the establishment and maintenance of personnel standards on a merit basis. The Secretary shall exercise no authority with respect to the selection, tenure of office, and compensation of any individual employed in accordance with such methods);

²² Title I.

²³ For purposes of this subchapter the term "old-age assistance" means money payments to, or medical care in behalf of, or any type of remedial care recognized under State law in behalf of, needy individuals who are 65 years of age or older. This term does not include any such payments to or care in behalf of any individual who is an inmate of a public institution (except as a patient in a medical institution), or any individual who (a) is a patient in an institution for tuberculosis or mental diseases, or (b) has been diagnosed as having tuberculosis or psychosis and is a patient in a medical institution as a result thereof. [42 U. S. C. 306.]

6. Provision that the State agency will make such reports, in such form and containing such information, as the Secretary may from time to time require, and comply with such provisions as the Secretary may from time to time find necessary to assure the correctness and verification of such reports;

7. Provision that the State agency shall, in determining need, take into consideration any other income or resources of an individual claiming old-age assistance;

8. Provision that safeguards be established which restrict the use or disclosure of information concerning applicants and recipients of old-age assistance. [This is modified to some extent by the Revenue Act of 1951, sec. 618 (65 Stat. 452, 569). No State, or agency or political subdivision thereof, shall be deprived of any grant-in-aid under this title by reason of enactment or enforcement by such State of any legislation prescribing any conditions under which public access may be had to records of the disbursement of any such funds or payments within such State, if such legislation prohibits the use of any list of names obtained through such access to such records for commercial or political purposes];

9. Provision that all individuals wishing to make application for old-age assistance shall have opportunity to do so, and that old-age assistance shall be furnished with reasonable promptness to all eligible individuals;

10. Provision that if a State plan includes payments to individuals in private or public institutions, the plan shall provide for the establishment or designation of a State authority to be responsible for establishing and maintaining standards for such institutions.

B. The Secretary shall approve any State plan which fulfills the provisions outlined above. In addition, a State plan in order to be approved, shall not impose as a condition of eligibility for old-age assistance (1) an age requirement of more than 65 years, (2) a residence requirement which excludes any resident of the State who has resided therein for 5 years during the 9 years immediately preceding the application for old-age assistance, and continuously for 1 year immediately preceding the application, or (3) any citizenship requirement which excludes any citizen of the United States. [42 U. S. C. 302.]

III. PAYMENTS TO STATES

A. AMOUNT OF PAYMENT

The Secretary of the Treasury shall pay to each State (having an approved plan for old-age assistance) each quarter, from sums appropriated therefor:

1. *States other than Puerto Rico or the Virgin Islands*

For benefits to any State other than Puerto Rico or the Virgin Islands, an amount, which shall be used exclusively as old-age assistance, equal to the sum of the following:

(a) Four-fifths of the first \$25 of a State's average monthly payment per recipient; plus

(b) One-half of the amount by which State expenditures exceed \$25 per month per recipient.

Federal assistance will be granted only on that portion of the State old-age assistance that does not exceed \$55 per recipient per month.

2. *Puerto Rico and the Virgin Islands*

For benefits to Puerto Rico and the Virgin Islands, an amount, which shall be used exclusively as old-age assistance, equal to one-half of the total expended during the quarter. No Federal assistance will be granted for expenditures in excess of \$30 per recipient per month; and

3. *Administration*

An amount, to any State, equal to one-half of the sums expended during the quarter as found necessary by the Secretary for administration of the State plan. This amount may be used only for the purposes of paying the costs of administering the State plan or for old-age assistance, or both, and for no other purpose.

B. COMPUTATION OF PAYMENT ²⁴

The method of computing and paying such amounts shall be as follows:

1. Prior to the beginning of each quarter the Secretary shall estimate the amount to be paid to the State for such quarter in accordance with the criteria previously outlined. The estimate shall be based on the following:

(a) A report filed by the State containing its estimate of the sum to be expended in such quarter and the amount appropriated or made available by the State and its political subdivisions for expenditures in such quarter. If the amount appropriated is less than one-half of the total sum of such estimated expenditures, the report must state the source or sources from which the difference is expected to be derived;

(b) Records showing the number of aged individuals in the State; and

(c) Such other investigation as the Secretary may find necessary

2. The Secretary shall then certify to the Secretary of the Treasury the amount so estimated by the Secretary with the following adjustments:

(a) Reduce or increase the amount, as the case may be, by any sum by which he finds that his estimate for any prior quarter was greater or less than the amount which should have been paid to the State for such quarter; and

(b) Reduce the amount by a sum equivalent to the pro rata share to which the United States is equitably entitled, as determined by the Secretary. This is a share of the net amount recovered during any prior quarter by the State or any political subdivision thereof with respect to old-age assistance furnished under the State plan. Any such amount recovered, however, shall not be used as a basis for a reduction, if it is derived from the estate of a deceased recipient and does not exceed the amount expended by the State or political subdivision thereof for funeral expense of the deceased. Such increases or reductions shall not be made to the extent that such sums have been applied to make the amount certified for any prior quarter greater or less than the amount estimated by the Secretary for such prior quarter.

3. The Secretary of the Treasury shall thereupon, through the Fiscal Service of the Treasury Department and prior to audit or settlement by the General Accounting Office, pay to the State, at the time or times fixed by the Secretary, the amount so certified, increased by 5 per centum. [42 U. S. C. 303.]

IV. STOPPING PAYMENTS TO STATES

In certain cases Federal assistance to States having old-age assistance plans may be suspended. The Secretary, before taking any such action, must give reasonable notice and opportunity for hearing to the State agency administering or supervising the administration of such plan. In order to subject a State to such a suspension, the Secretary must find either:

(A) that the State plan has been changed to impose any of the following prohibited requirements:

1. An age requirement of more than 65 years;

2. A residence requirement which excludes any resident of the State who has resided therein for 5 years during the 9 years immediately preceding the application for old-age assistance, and continuously for 1 year immediately preceding the application; or

3. Any citizenship requirement which excludes any citizen of the United States

²⁴ This subsection contains certain errors that should be noted. In 1946 the Social Security Act was amended by striking out "clause (1) of" wherever it appeared, by substituting "the State's proportionate share" for "one-half," and by striking "increased by 5 per centum" [60 Stat. 991-2, sec. 501 (b)]. These amendments were made effective only until December 31, 1947 [60 Stat. 993, sec. 504]. In 1947, however, this termination date was extended until June 30, 1950 [61 Stat. 794, sec. 3].

Since the 1947 amendment no further legislative action has been taken to either extend the termination date of these amendments or to make them permanent law. As a result, the law as it existed prior to the enactment of the amendments was revived. The codifiers of the United States Code restated this old law as to the first two noted revisions, but did not include the third, the striking of "increased by 5 per centum."

The analysis presented herein states the law as it exists today. In addition to provisions noted in the analysis, it should also be noted that although the Secretary of Health, Education, and Welfare is estimating and certifying advance payments to Puerto Rico and the Virgin Islands and the Secretary of the Treasury is paying them, there is no such express authority granted either Secretary. It is understood, however, that the Department of Health, Education, and Welfare is administering these provisions of the law as the Department believes it was intended by Congress, that is, without the revival of the prior law.

If in the administration of the plan any of the noted prohibited requirements are imposed, with the knowledge of the State agency, and in a substantial number of cases, the Federal assistance may also be suspended; or

(B) that in the administration of the plan there is a failure to comply substantially with any provision required by this act for a State plan for old-age assistance.

The Secretary shall notify the State agency that further payments will not be made to the State until the Secretary is satisfied that any prohibited retirement is no longer imposed and consequently that there is no longer any failure to comply. Until the Secretary is so satisfied he shall make no further certification to the Secretary of the Treasury with respect to such State. [42 U. S. C. 304.]

PART TWO—GRANTS TO STATES FOR AID TO DEPENDENT CHILDREN²⁵

I. GENERAL

Grants-in-aid for dependent children²⁶ are made to States which have State plans approved by the Secretary of Health, Education, and Welfare. These grants are authorized on an annual basis from appropriations for that purpose. [42 U. S. C. 601.]

II. STATE PLANS FOR AID TO DEPENDENT CHILDREN

A. In order for a State to qualify for Federal aid for assistance to dependent children, certain standards must be met in a State plan. These include—

1. Provision that the State plan shall be in effect in all political subdivisions of the State, administration by such subdivision must be in strict conformity with the State plan;

2. Provision for financial participation by the State;

3. Provision for either the establishment or designation of a single State agency to administer the plan, or provision for the establishment or designation of a single State agency to supervise administration of the plan;

4. Provision for granting an opportunity for a fair hearing before the State agency to any individual whose claim for aid to dependent children is denied or is not acted upon with reasonable promptness;

5. Provision for such methods of administration as are found by the Secretary to be necessary for the proper and efficient operation of the plan. (These methods of administration should include methods relating to the establishment and maintenance of personnel standards on a merit basis. The Secretary shall exercise no authority with respect to the selection, tenure of office, and compensation of any individual employed in accordance with such methods);

6. Provision that the State agency will make such reports, in such form and containing such information, as the Secretary may from time to time require and comply with such provisions as the Secretary may from time to time find necessary to assure the correctness and verification of such reports;

7. Provision that the State agency shall, in determining need, take into consideration any other income and resources of any child claiming aid to dependent children;

8. Provision that safeguards be established which restrict the use or disclosure of information concerning applicants and recipients to purposes directly connected with the administration of aid to dependent children.

²⁵ Title IV.

²⁶ A "dependent child" means a needy child under the age of 16, or under the age of 18 if found by the State agency to be regularly attending school, who has been deprived of parental support or care by reason of the death, continued absence from the home, or physical or mental incapacity of a parent, and who is living with his father, mother, grandfather, grandmother, brother, sister, stepfather, stepmother, stepbrother, stepsister, uncle, or aunt, in a place of residence maintained by one or more of such relatives as his or their own home.

"Aid to dependent children" means money payments with respect to, or medical care in behalf of or any type of remedial care recognized under State law in behalf of, a dependent child or dependent children, and (except when used in reference to Puerto Rico and the Virgin Islands) includes money payments or medical care or any type of remedial care recognized under State law for any month to meet the needs of the relative with whom any dependent child is living if money payments have been made under the State plan with respect to such child for such month.

(This is modified to some extent by the Revenue Act of 1951, Public Law 183, 82d Cong., sec. 618. No State, or agency or political subdivision thereof, shall be deprived of any grant-in-aid under this title by reason of enactment or enforcement by such State of any legislation prescribing any conditions under which public access may be had to records of the disbursement of any such funds or payments within such State, if such legislation prohibits the use of any list of names obtained through such access to such records for commercial or political purposes) ;

9. Provision that all individuals wishing to make application for aid to dependent children shall have opportunity to do so, and that aid to dependent children shall be furnished with reasonable promptness to all eligible individuals ;

10. Provision for prompt notice to appropriate law-enforcement officials by the State agency when aid is furnished to a dependent child who has been deserted or abandoned by a parent ; and

11. Provision that no aid will be furnished any individual under the plan for any period in which he is receiving old-age assistance under the State plan approved in title I dealing with State old-age assistance plans.

B. The Secretary shall approve any State plan which fulfills the provisions outlined above. In addition, a State plan in order to be approved, shall not deny assistance to a child (1) who has resided in the State for 1 year immediately preceding the application for such aid, or (2) who was born within 1 year immediately preceding the application, if the parent or other relative with whom the child is living²⁷ has resided in the State for 1 year immediately preceding the birth. [42 U. S. C. 602.]

III. PAYMENTS TO STATES

A. AMOUNT OF PAYMENT

The Secretary of the Treasury shall pay to each State (having an approved plan for aid to dependent children) each quarter, from sums appropriated therefor—

1. *For benefits to any State other than Puerto Rico or the Virgin Islands.*

An amount, which shall be used exclusively as aid to dependent children, equal to the sum of the following :

(a) Four-fifths of the first \$15 of a State's average monthly payment per recipient plus

(b) One-half of the amount by which State expenditures exceed \$15 per month per recipient.

Federal assistance will be granted only on that portion of State assistance to dependent children that does not exceed \$30 per recipient per month. Where there is more than one dependent child in a home the maximum limit which a State may spend, for which Federal aid will be given is \$30 for the first child and \$21 for each additional child. The same limitations apply to benefits received by a relative with whom a dependent child is living ;

2. *For benefits to Puerto Rico and the Virgin Islands*

An amount, which shall be used exclusively as aid to dependent children, equal to one-half of the total expended during the quarter. No Federal assistance will be granted for expenditures in excess of \$18 per recipient per month or, in families where there is more than one dependent child, the limit shall be \$18 for the first child and \$12 with respect to the others ; and

3. *For administration*

An amount, to any State, equal to one-half of the sums expended during the quarter as found necessary by the Secretary for administration of the State plan. This amount may be used only for the purpose of paying the costs of administering the State plan or for aid to dependent children, or both, and for no other purpose.

²⁷ "Relative with whom any dependent child is living" means the individual who is one of the relatives specifically mentioned in this section (i. e., mother, father, grandfather, etc.) and with whom the child is living in a place of residence maintained by the relative (himself or together with any one or more of the other relatives so specified) as his (or their) own home.

B. COMPUTATION OF PAYMENT

The method of computing and paying such amounts shall be as follows:

1. Prior to the beginning of each quarter the Secretary shall estimate the amount to be paid to the State for such quarter in accordance with the criteria previously outlined. The estimate is based on the following:

(a) A report filed by the State containing its estimate of the sum to be expended in such quarter and the amount appropriated or made available by the State and its political subdivisions for expenditures in such quarter. If the amount appropriated is less than one-half of the total sum of such estimated expenditures, the report must state the source or sources from which the difference is expected to be derived;

(b) Records showing the number of dependent children in the State; and

(c) Such other investigation as the Secretary may find necessary.

2. The Secretary shall then certify to the Secretary of the Treasury the amount so estimated by the Secretary with the following adjustments:

(a) Reduce or increase the amount, as the case may be, by any sum by which he finds that his estimate for any prior quarter was greater or less than the amount which should have been paid to the State for such quarter;

(b) Reduce the amount by a sum equivalent to the pro rata share to which the United States is equitably entitled, as determined by the Secretary. This is a share of the net amount recovered during any prior quarter by the State or any political subdivision thereof with respect to aid to dependent children furnished under the State plan. Such increases or reductions shall not be made to the extent that such sums have been applied to make the amount certified for any prior quarter greater or less than the amount estimated by the Secretary for such prior quarter.

3. The Secretary of the Treasury shall thereupon, through the Fiscal Service of the Treasury Department and prior to audit or settlement by the General Accounting Office, pay to the State, at the time or times fixed by the Secretary, the amount so certified. [42 U. S. C. 603.]

IV. STOPPING PAYMENTS TO STATES

In certain cases Federal assistance to States having plans for aid to dependent children may be terminated or suspended. The Secretary before taking such action, must give reasonable notice and opportunity for hearing to the State agency administering or supervising the administration of such plan. In order to subject the State to such penalty, the Secretary must find either—

1. That the State plan has been changed to impose a prohibited residence requirement, i. e., requirements in excess of 1 year residence by the child applying for aid or in the case of a child born in the State within 1 year preceding application, requirements in excess of 1 year residence by the parent or other relative with whom the child is living. If in the administration of the plan the noted prohibited requirement is imposed, with the knowledge of the State agency, and in a substantial number of cases, the Federal assistance may also be suspended; or

2. That in the administration of the plan there is a failure to comply substantially with any provision required by this act for a State plan for aid to dependent children.

The Secretary will notify such State agency that further payments will not be made to the State until the Secretary is satisfied that any prohibited requirement is no longer imposed and consequently that there is no longer any failure to comply. Until the Secretary is so satisfied he shall make no further certification to the Secretary of the Treasury with respect to such State. [42 U. S. C. 604.]

PART THREE—ADMINISTRATIVE PROCEDURE ²⁸

I. APPROVAL OF STATE PLANS

A. GENERAL

The State plan shall be prepared by the State public-assistance agency and describes all pertinent aspects of its operation necessary for the Social Security Act. The plan shall set forth:

²⁸ Pertaining to titles II and IV.

1. The basic laws enabling and limiting administration of public assistance;
2. A description of the agency's organization and functions;
3. Rules and regulations governing personnel administration;
4. Policies, instructions, and interpretations with regard to eligibility conditions and methods of determining the amount of assistance;
5. Fiscal operations and procedures; and
6. Reporting and research activities.

The *Guide for Submitting Basic Material Pertaining to State Public Assistance Plans* contains detailed instructions and suggestions for the content and submission of such plans. [45 CFR 201.1.]

B. APPROVAL OF STATE PLANS AND AMENDMENTS

A plan may cover all 4 types of assistance (old-age assistance, aid to dependent children, aid to the blind, and aid to the permanently and totally disabled) where the programs have a common basis for administration, or may cover any 1 program. After initial approval by the Secretary, all relevant changes shall be submitted currently so that the Secretary may from time to time determine the status of a State plan for purposes of certification of grants. Relevant changes shall include new statutes, rules, regulations, interpretations, and court decisions. The following shall be the procedure for the submission and approval of a State plan:

1. Submission

The plan and revision material shall be submitted to the Bureau of Public Assistance through the regional office. Regional staffs are available for consultation on plans in the process of preparation or revision.

2. Review

The regional staffs shall be responsible for the review of plans and for initiating discussion with a State agency on clarification of significant aspects of the plan. Questions concerning the application of Federal policy to plan material shall be referred, with recommendations by the regional staffs, to the Washington office for decision. The departmental office may prepare comments and suggestions, including those of consultants in specialized areas, for use by regional staffs in negotiations with State agencies.

3. Approval

The Bureau of Public Assistance shall have the authority of initial approval of State plans or laws. [45 CFR 201.2.]

II. CERTIFICATION OF GRANTS

A. GRANTS

Grants for assistance and administration of State-approved plans shall be made quarterly. The amount of a grant shall be based upon the following three documents:

1. The State agency's quarterly estimate for public-assistance grants;
2. The State fiscal officer's certificate of available State funds; and
3. The State agency's quarterly expenditures statement.

B. FORM AND MANNER OF SUBMISSION

1. Time and place

Estimates for public-assistance grants and certificates of available funds shall be forwarded to the regional office 45 days prior to the period of the estimate. Although estimates shall ordinarily be submitted quarterly, upon agreement with the Bureau of Public Assistance estimates may be submitted at annual or semi-annual intervals. The certificate of available funds may be submitted on a quarterly, semiannual, or annual basis.

The quarterly expenditures statements shall be forwarded to the regional office within 20 days after the end of the quarter.

2. Description of forms

(a) *The report of estimated expenditures and funds to be available.*—This report represents the State agency's estimate of—

(1) The number of recipients to receive aid during each of the 3 months during the quarter;

(2) The estimated average assistance per recipient; and

(3) The estimated expenditures for assistance and administration, and is the basis upon which the total funds to be advanced during the quarter is computed.

The report shall also indicate the amount of State and local funds appropriated for public assistance during the pertinent quarter. Estimated expenditures that exceed the Federal matching maxima for payments to individuals shall not be included in computing the Federal grant. They shall be deducted from the total estimate.

(b) *The certificate of the State treasurer or other fiscal officer having custody or control of State assistance funds.*—This certificate contains the amount of State funds actually on hand and available for expenditure. This amount shall be exclusive of any balance of Federal assistance received. If the amount certified is not sufficient to cover the State's proportionate share of the amount estimated to be expended, the certificate should contain a statement showing the source from which the deficiency is expected to be derived and the time when it is expected to be available.

(c) *The quarterly statement of expenditures.*—This statement is an accounting statement showing:

(1) The disposition of the Federal funds granted for past periods;

(2) Adjustments necessary because the State's estimate for a prior quarter was greater or less than the amount actually expended;

(3) The Federal share in any recovery of assistance from recipients; and

(4) Expenditures not properly subject to Federal participation which are acknowledged by the State agency or have been revealed by a fiscal audit.

3. Review

State estimates shall be analyzed by the regional office staff and forwarded with recommendations to the central office.

4. Estimate of amount due and certification

Upon consideration and approval of the grant request, the Commissioner of Social Security shall estimate the amount to be paid and certify such sum to the Secretary of the Treasury for the ensuing quarter. Payment to the State shall be made by the Secretary of the Treasury at the beginning of each month of the quarter. [45 CFR 201.3.]

III. WITHHOLDING CERTIFICATION

A. WHEN WITHHELD

Certification of grants shall be withheld under the circumstances provided in the act. [See 42 U. S. C. 304 and 604.]

B. INFORMAL DISCUSSIONS

Hearings on withholding certification are not generally called until after reasonable effort has been made by regional and central office representatives to resolve the questions involved by conference and discussion with the State officials. Further negotiations are not foreclosed by formal notification of the date and place of the hearing.

C. HEARINGS

Hearings shall be held in accordance with the provisions of sections 5–8 of the Administrative Procedure Act (U. S. C. 5: 1004–1007).

D. NOTICE OF NONCERTIFICATION

If after a hearing it is found that funds should be withheld, the State agency shall be notified that no further payment will be made until it is shown that—

1. The prohibited requirement is no longer imposed; and

2. There is no longer any failure to comply with the provisions of the Social Security Act. Until these conditions have been met further certification to the Secretary of the Treasury shall not be made with respect to the State plan in question. [45 CFR 201.4.]

IV. CONTINUING REVIEW OF STATE AND LOCAL ADMINISTRATION

The Bureau of Public Assistance shall conduct a continuing review of State and local administration to provide a basis for determining that they are adhering to Federal requirements and the substantive, legal, and administrative provisions of their approved plans. The review includes—

- A. An analysis of the State and local agency's procedures and policies;
- B. A review of the records of individual recipients; and
- C. An examination and scheduling of a sample of case records of various types, such as approved applications, cases active for a year or more, and rejected applications.

If the review reveals apparent improper claims for Federal funds, the State agency shall be given an opportunity to substantiate the payment or adjust its expenditure report. [45 CFR 201.5.]

V. PUBLIC ASSISTANCE FISCAL AUDITS

A. AUDITS

Semiannually, or as necessary, claims for Federal funds shall be audited by the Division of State grant-in-aid audits of the Office of Federal-State Relations of the Department of Health, Education, and Welfare to determine that—

- 1. The agency has properly reported its accountability for grants of Federal funds for public assistance;
- 2. Federal grants were actually disbursed to individuals determined by the agency to be entitled to public assistance under the appropriate category;
- 3. The administrative expenditures claimed for Federal participation are proper under the Federal act and the plan, laws, and regulations;
- 4. The amounts expended and used as the basis for claiming Federal funds were not derived from other Federal sources or were not used as a basis for other Federal matching; and
- 5. The Federal share in any recovery was accurately and promptly adjusted with, or limited to, the Federal Government.

B. AUDIT EXCEPTIONS

If the audit results in exceptions, the details of such exceptions shall be submitted to the State agency which may concur in the exceptions or submit additional facts for purposes of clearance. The State may appeal audit exceptions in which it has not concurred or which have not been deleted on the basis of clearance material. After consideration of the appeal the Commissioner shall advise the State agency of expenditures in which the Federal Government may not participate and shall request their inclusion as adjustments in a subsequent statement of expenditures. Where such adjustments are not properly made they shall be deducted from the subsequent estimates made by the State. [45 CFR 201.6.]

ADMINISTRATION ²⁹

There shall be in the Department of Health, Education, and Welfare a Commissioner of Social Security who shall be appointed by the President by and with the advice and consent of the Senate, shall perform such functions concerning social security and public welfare as the Secretary may prescribe and shall receive compensation at the rate now or hereafter fixed by law for grade GS-18 of the general schedule established by the Classification Act of 1949, as amended. [42 U. S. C. 901.]

The Secretary of Health, Education, and Welfare shall perform the duties imposed on him by the Social Security Act and shall also have the duty of studying and making recommendations as to the most effective methods of providing economic security through social insurance, and as to legislation and matters of administrative policy concerning old-age pensions, unemployment compensation, accident compensation, and related subjects. [42 U. S. C. 902.]

The Secretary is authorized to appoint and fix the compensation of such officers and employees, and to make such expenditures as may be necessary for carrying out his functions under the Social Security Act. Appointments for attorneys

²⁹ Title VII.

and experts may be made without regard to the civil-service laws. [42 U. S. C. 903.]

The Secretary shall make a full report to Congress, at the beginning of each regular session, of the administration of the functions with which he is charged under the Social Security Act. In addition to the number of copies of such report authorized by other law to be printed, there is authorized to be printed not more than 5,000 copies of such report for use by the Secretary for distribution to Members of Congress and to State and other public or private agencies or organizations participating in or concerned with the social security program. [42 U. S. C. 904.]

A working capital fund is established, to be available without fiscal year limitation, for expenses necessary for the maintenance and operation of (1) a central reproduction service, (2) a central tabulating service, and (3) a central supply service for which adequate stocks of supplies and equipment may be maintained in whole or in part for requirements of the Department. Stocks of such supplies and equipment on hand or on order June 30, 1952, under the appropriation "Salaries and expenses, Division of Service Operations" shall also be used to capitalize said fund. Thereafter the fund is to be reimbursed in advance from available funds of bureaus, offices, and agencies for which services are performed at rates which will return in full all expenses of operation, including reserves for accrued annual leave and depreciation of equipment.

GENERAL PROVISIONS³⁰

A. DEFINITIONS

1. When used in the Social Security Act—

(a) The term "State" includes Alaska, Hawaii, and the District of Columbia, and when used in title I (grants to States for old-age assistance), title II (old-age and survivors insurance), title IV (grants to States for aid to dependent children), title V (grants to States for maternal and child welfare), title X (grants to States for aid to the blind), and title XIV (grants to States for aid to the permanently and totally disabled) includes Puerto Rico and the Virgin Islands.

(b) The term "United States" when used in a geographical sense means the States, Alaska, Hawaii, and the District of Columbia.

(c) The term "person" means an individual, a trust or estate, a partnership, or a corporation.

(d) The term "corporation" includes associations, joint-stock companies, and insurance companies.

(e) The term "shareholder" includes a member in an association, joint-stock company, or insurance company.

(f) The term "Secretary" except where the context otherwise requires, means the Secretary of the Department of Health, Education, and Welfare.

(g) The terms "physician" and "medical care" and "hospitalization" include osteopathic practitioners or the service of osteopathic practitioners and hospitals within the scope of their practice as defined by State law.

2. The terms "includes" and "including" when used in a definition contained in the Social Security Act shall not be deemed to exclude other things that might be within the meaning of the term defined.

3. Whenever an employer is permitted to make a deduction from an employee's pay, under the Social Security Act or any act of Congress, or under the law of any State, and pay such amount to the United States or any State, or political subdivision thereof, the amount so deducted will be considered to have been paid to the employee at the time of such deduction.

4. Nothing in the Social Security Act shall be construed as authorizing any Federal official, agent, or representative, in carrying out any of the provisions of the act, to take charge of any child over the objection of either of the parents of such child, or of the person standing in loco parentis to such child. [42 U. S. C. 1301.]

Both Regulations 3 (20 CFR 403.1 to 403.835) which governed interpretation and administration of OASI provisions from 1940 to 1951 and Regulations 4 (20 CFR 404.1 to 404.1408) which govern interpretations subsequent to 1950 contain general definitions.

Regulations 4 (20 CFR 404.2) provides that Regulations 3 shall continue in effect with respect to OASI benefits prior to September 1950 (except with respect

³⁰ Title XI.

to deductions from benefits because of earnings from self-employment after age 65) to lump-sum death payments payable for deaths subsequent to 1939 and prior to September 1950, and to whether services performed prior to 1951 constitute employment and whether remuneration paid prior to 1951 for employment constitutes wages. Regulations 3 still governs the filing of applications and other forms and procedures, the payment of benefits, and the representation of parties. Otherwise it is superseded by Regulations 4.

In Regulations 3 (20 CFR 403.801) it is specifically stated that in interpreting the regulations the terms defined in 42 U. S. C. 409 (before 1950 the section containing definitions under OASI) and 42 U. S. C. 1301 (the general definitions section of the entire act) shall govern. Prior to the amendments of 1950, 42 U. S. C. 1301 contained a statutory definition of "employee." The regulations added descriptive definitions of the following words:

"Bureau" means Bureau of Old-Age and Survivors Insurance.

"Benefit" means primary insurance benefit, wife's insurance benefit, widow's insurance benefit, widow's current insurance benefit, or parents' insurance benefit. Lump-sum benefits are excluded from the definition for the sake of clarity.

"Lump-sum payment" means a lump-sum death payment under OASI or any share in such payment.

"Wage earner" means anyone paid wages.

"Attainment of age" means the first moment of the day preceding the anniversary of birth corresponding to such age.

"Wages paid" means wages actively or constructively paid, and "constructively paid" is further defined as having no substantial limitation or restriction as to time or manner of payment.

"Certify" is used in connection with the duty imposed on the Secretary concerning records of wages and self-employment income relating to furnishing the managing trustee with the name and address of persons to whom payment of benefits or lump-sum payments shall be made.

In the general definitions section of Regulations 4, no reference is made to 42 U. S. C. 1301. The definitions therein (20 CFR 404.1001) with the exception of technical references (to laws and other regulations) are substantially the same as those in Regulation 3. The definition of the word "benefits" has been expanded, in the light of the amendments of 1950 (see title II of this report, pt. IV thereof), as follows:

"Benefits" means old-age insurance benefit, wife's insurance benefit, husband's insurance benefit, child's insurance benefit, widow's insurance benefit, widower's insurance benefit, mother's insurance benefit, or parents' insurance benefits.

5. When used in the sections respecting computations of old-age assistance payments, lump-sum death payments, monthly insurance benefits, wage credits imputed to veterans based on their military service, aid to dependent children, maternal and child health services, aid to the blind, and reconversion unemployment benefits for seamen, the term "Secretary" except where the context otherwise requires means the Secretary of Health, Education, and Welfare. [42 U. S. C. 1301-1.]

B. TRAVEL EXPENSES

Payment, not to exceed 7 cents a mile is provided for employees of the Bureau of Old-Age and Survivors Insurance when engaged in investigating claims or obtaining information with respect to claims or wage records under OASI, if such travel is done in their own cars. This allowance is regulated by the Travel Expense Act of 1949 [63 Stat. 166, § 4] which governs travel expenses for civilian officers and employees of the Government. [42 U. S. C. 1301a.]

C. AUTHORITY FOR RULES AND REGULATIONS

This section gives the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health, Education, and Welfare the authority to make and publish rules and regulations not inconsistent with the Social Security Act, as may be necessary to the efficient administration of the functions with which each is charged under the act.

NOTE.—This is a general provision, permitting administrative rules and regulations to be promulgated, under and in pursuance of the substantive provisions of the other titles of the act. In the original act it was the only section granting such authority; now, several of the titles, viz OASI (title II) have similar provisions. There are no regulations under this section in itself, for the regulations have been correlated to the substantive provisions toward the administration of which they were promulgated. As they have occurred under the substantive provisions, they have been noted.

D. TECHNICAL PROVISIONS

1. A separability clause is provided, to protect both the whole act from falling if any section is held invalid, and to protect all rights accrued to persons under the act, except those specifically held invalid. [42 U. S. C. 1303.]
2. The right to alter, amend, or repeal any provision of the Social Security Act is reserved to Congress.
3. The act is to be cited as the Social Security Act.

E. DISCLOSURE OF INFORMATION

1. A prohibition on the disclosure of information, except as the Secretary of Health, Education, and Welfare shall prescribe, is imposed upon persons dealing in the official capacities with any records or information acquired or requested under the Social Security Act. Violations of regulations issued to protect this information are punishable as misdemeanors and subject to penalty of a fine not exceeding \$1,000 and/or 1 year in prison. [42 U. S. C. 1306 (a).]

Prohibits disclosure by any employee in the Department of Health, Education, and Welfare of any returns or portions of returns (including information returns or other written returns) filed with the Commissioner of Internal Revenue under the Federal Insurance Contributions Act, or the Self-Employment Contributions Act, which are used in connection with the administration of the old-age and survivors insurance provisions of the Social Security Act and have been transmitted to the Department for that purpose. [20 CFR 401.1.]

Employees of the Department of Health, Education, and Welfare, if served with subpoena or other compulsory process, shall respectfully decline to produce any such information, under the authority of these sections. [20 CFR 401.2.]

Permits disclosures for the following purposes: (1) The matter pertains to payment of benefits under OASI to a claimant or his authorized representative; (2) after an individual's death, and when effective administration permits it, the surviving relative or legal representative of a former claimant or former beneficiary requires it; (3) an employer, or former employer, requests it for a determination of wages paid; (4) to any employee of the Treasury Department or the Department of Justice for administrative purposes only; (5) to Federal and State employees charged with administration of unemployment compensation or taxes related thereto; (6) to employees of the Federal Government administering public assistance, work relief, pension, or retirement, etc., laws; (7) to Federal and State employees administering vocational rehabilitation, old-age assistance, aid to dependent children, maternal and child-welfare programs, aid to the blind, aid to the permanently and totally disabled, but only for administrative convenience regarding benefits paid, and date of birth of recipient or applicant; (8) for identification purposes to officials of the Federal, State, or municipal governments, or hospitals, where only a social-security number is available for identification; (9) to officers of Federal departments charged with investigating (a) violations of the social security or related acts, where the violation is subject to criminal penalties, (b) possible fraud by an officer or employee of the Department of Health, Education, and Welfare in relation to Social Security, (c) forgery, theft, alteration, etc., of a benefit check, or (d) until the termination of the emergency proclaimed December 16, 1950, any act of espionage or sabotage; (10) in connection with a related proceeding under the act; or, (11) statistical data shorn of identifiable aspects, and compiled for administrative purposes.

The Commissioner of Social Security shall determine the release of information under the foregoing. Other information not used in conjunction with OASI may be released in accordance with policies set by the Commissioner. [20 CFR 401.3.]

In relation to all the foregoing, defines the following:

"Claimant" is one who files an application on his own behalf or as guardian of an infant or legal representative of an incompetent, or someone on whose behalf another files a claim;

"Prospective claimant" is a living wage earner, the legal representative of an incompetent wage earner, the guardian of an infant, the next of kin of a deceased wage earner, or any other person equitably entitled, by reason of having paid a wage earner's burial expenses, etc.;

"Authorized representative" is one authorized to act on behalf of a claimant;

"Legal representative" includes those appointed by a court or otherwise authorized by law to act on behalf of a claimant;

"Cost of disclosing information" means the actual cost of preparing such information for disclosure;

"Person" includes an individual, a firm, an association, or a corporation. [20 CFR 401.4]

2. Information may be made public in the discretion of the Secretary of Health, Education, and Welfare and in accordance with any necessary regulations, but only if the agency, person, or organization making the request agrees to pay the cost of furnishing the information. Such payments shall ordinarily be in advance and placed in a special deposit to reimburse the units of the Department which prepared or furnished the information. [42 U. S. C. 1306 (b).]

Payment for information which must be prepared and released for disclosure shall be made in advance, except (1) if administratively it would be preferable to allow payment to be made later no advance payment shall be requested; (2) the request is made by an individual, his survivor, or legal representative for wage records, no charge shall be made; (3) when the request is made by the Treasury Department or the Department of Justice, no charge shall be made; (4) when the request is made by any agency of a State government charged with administrative responsibilities in connection with the provisions of the Social Security Act, no charge shall be made unless special statistical study is required, or a special compilation of data is made to comply with the request; (5) the cost may be estimated where determination of the actual cost would be expensive in itself, but it may not be more than actual cost, and when thought necessary, it may be waived whenever the expense of obtaining reimbursement would be out of proportion to the charge made. [20 CFR 401.5 and 401.6.]

NOTE.—Though not a regulation directly under 42 U. S. C. 1306, it might be noted here that 45 CFR 5.1 and 5.2 permit public inspection of final opinions and orders in the adjudication of cases by the Department of Health, Education, and Welfare, upon obtaining permission to inspect same.

F. PENALTY FOR FRAUD

1. Whoever, with the intent to defraud, any person shall make or cause to be made, any false representation concerning the requirements of this act, the self-employment tax, or employment taxes by other than carriers, the tax on employers of eight or more, and general provisions, or any of the rules and regulations thereunder, knowing such representations to be false, shall be deemed guilty of a misdemeanor, and, upon conviction thereof, shall be punished by a fine not exceeding \$1,000, or by imprisonment, not exceeding 1 year, or both.

2. Whoever, with intent to elicit information as to the date of birth, employment, wages, or benefits of any individual (1) falsely represents to the Secretary that he is such individual, or the wife, parent, or child of such individual, or the duly authorized agent of such individual or of the wife, husband, widow, widower, former wife divorced, child, or parent of such individual, or (2) falsely represents to any person that he is an employee or agent of the United States, shall be deemed guilty of a misdemeanor, and upon conviction thereof, shall be punished by a fine not exceeding \$1,000, or by imprisonment not exceeding 1 year, or both. [42 U. S. C. 1307.]

G. EARNED INCOME OF BLIND RECIPIENTS

A temporary provision, valid until June 30, 1954, provided that notwithstanding the provisions governing approval of State plans which require such State plans to take into account the income of recipients of benefits thereunder (except the blind who are permitted to have earned income up to \$50 a month), the States in dealing with dependents of the blind under other programs, may except from consideration any money up to \$50 a month earned by the blind person on whom the other beneficiaries are dependent. [42 U. S. C. 1309.]

XIII. SUMMARY OF OLD-AGE AND SURVIVORS INSURANCE SYSTEM AS MODIFIED BY 1952 AMENDMENTS¹

(Prepared by Division of the Actuary, Social Security Administration, August 1952)

I. Benefits payable to

- (a) Retired worker age 65 or over.
- (b) Wife of retired worker if she is age 65 or over, or regardless of age, if entitled child under age 18 is present. Dependent husband² of retired worker if he is age 65 or over.
- (c) Widow or dependent widower,³ age 65 or over, of deceased worker.
- (d) Children (under age 18) of retired worker, and children of deceased worker and their mother (the worker's widow, or in some cases his divorced wife) regardless of her age.
- (e) Dependent parents,³ age 65 or over, of deceased worker if no surviving widow, widower, or child who could have received benefits.
- (f) In addition, there is a lump-sum payment upon death of an insured worker.
- (g) In effect, no individual can receive more than one type of monthly benefit, but rather the largest for which he is eligible.

II. Insured status

- (a) Based on "quarter of coverage," namely, calendar quarters in which the worker is credited with \$50 or more of wages, or \$100 or more of self-employment income.
- (b) Fully insured status gives eligibility for all benefits except dependent husband's benefits and dependent widower's benefits, which require both fully and currently insured status, and child's benefits in respect to a married woman which may require currently insured status. To be fully insured requires one "quarter of coverage" (acquired at any time after 1936) for each two quarters elapsing after 1950 (or age 21 if later) and before age 65 (or death if earlier). In no case are more than 40 quarters of coverage required. A minimum of 6 quarters of coverage is required. Thus, all age 62 or over in 1951 need have only 6 quarters of coverage.
- (c) Currently insured status (eligible only for child, mother, and lump-sum survivors benefits) requires 6 quarters of coverage within 13 quarters preceding death.

III. Worker's old-age benefit (called "primary insurance amount")

- (a) Average monthly wage may be computed under two methods: "Old law" average based on period from 1937 to age 65 or subsequent retirement (or death if earlier) regardless of whether in covered employment in all such years. "New start" average beginning with 1951 rather than 1937 may be used for those with 6 or more quarters of coverage after 1950.
- (b) Monthly benefit amount is computed from whichever of the two average wages gives the larger benefit.
- (c) Using the "Old law" method, the "original" monthly amount is 40 percent of first \$50 of average wage plus 10 percent of next \$200, all increased by 1 percent for each calendar year prior to 1951 in which at least \$200 of wages was paid. This "original" amount is then increased by a conversion table to give the primary insurance amount, as indicated by the following table for certain illustrative cases:

<i>Original amount</i>	<i>Primary insurance amount</i>
\$10	\$25.00
\$15	35.00
\$20	42.00
\$25	52.40
\$30	60.80
\$35	66.60
\$40	72.00
\$45	77.10

¹ The provisions for the preservation of insurance rights of permanently and totally disabled individuals are not described here because they require further legislative action before becoming effective.

² Proof of dependency must be filed within 2 years of worker's entitlement in cases of a dependent husband, and within 2 years of death in cases of a dependent widower or dependent parent. The 2-year period in cases of widowers or parents may be extended to September 1954 in cases of insured veterans who died prior to September 1952.

(d) Using the "New start" method, the primary insurance amount is 55 percent of first \$100 of average wage plus 15 percent of next \$200.

(e) Minimum primary insurance amount is \$26 unless average monthly wage is less than \$35 (then it is \$25).

(f) Illustrative primary insurance amounts for various proportions of time in covered employment after 1950:

Level monthly wage while working	Proportion of years after 1950 in covered employment			Level monthly wage while working	Proportion of years after 1950 in covered employment		
	All	One-half	One-quarter		All	One-half	One-quarter
\$50.....	\$27.50	\$25.00	\$25.00	\$200.....	\$70.00	\$55.00	\$27.50
\$100.....	55.00	27.50	25.00	\$250.....	77.50	58.80	34.10
\$150.....	62.50	41.30	28.00	\$300.....	85.00	62.50	41.30

IV. Benefit amounts for dependents and survivors, relative to worker's primary insurance amount

(a) Wife or dependent husband, one-half of primary.

(b) Widow or dependent widower, three-fourths of primary.

(c) Child, one-half of primary, except that for deceased worker family, an additional one-fourth of primary is divided among the children.

(d) Dependent parent, three-fourths of primary.

(e) Lump-sum payment, three times primary.

(f) Maximum family benefit is \$168.75 or 80 percent of average wage if less (but not to reduce below \$45).

(g) Illustrative monthly benefits for retired workers in covered employment after 1950, and benefits payable to entitled wives (figures rounded to the nearest dollar):

Average monthly wage	Single, or married with wife (not entitled)	Married with wife age 65 or over ¹	Average monthly wage	Single, or married with wife (not entitled)	Married with wife age 65 or over ¹
\$50.....	\$28	\$41	\$200.....	70	105
\$100.....	55	80	\$250.....	78	116
\$150.....	63	94	\$300.....	85	128

¹ With entitled wife and entitled children the amounts would be somewhat larger.

(h) Illustrative monthly benefits for survivors of insured workers in covered employment after 1950 (rounded to nearest dollar):

Average monthly wage	Widow age 65 or over ¹	Widow and 1 child	Widow and 2 children	Widow and 3 children	1 child alone	2 children alone
\$50.....	\$21	\$41	\$45	\$45	\$21	\$34
\$100.....	41	80	80	80	41	69
\$150.....	47	94	120	120	47	78
\$200.....	53	105	140	160	53	88
\$250.....	58	116	155	169	58	97
\$300.....	64	128	169	169	64	106

¹ Also applicable to aged widower or aged parent.

V. Employment permitted without suspension of benefits (called work clause)

No benefits are paid for month in which more than \$75 of wages is earned in covered employment or for months in which more than \$75 of self-employment income is "charged" and in which substantial self-employment occurred, except that for beneficiaries age 75 or over, there is no limitation at all. If retired worker's benefits suspended, so also is any wife's, husband's, or child's benefit.

VI. Covered employment

(a) All employment listed below which takes place in the 48 States, the District of Columbia, Alaska, Hawaii, Puerto Rico, or the Virgin Islands, or which is performed outside the United States by American citizens employed by an American employer is covered employment. Also covered, under certain conditions, is employment on American ships and aircraft outside the United States.

(b) The types of employment covered are as follows:

(1) Virtually all employees in industry and commerce, other than long-service railroad workers (the service of those who retire or die with less than 10 years of railroad service is covered).

(2) Nonfarm self-employed, other than certain professions (physician, dentist, osteopath, chiropractor, optometrist, naturopath, Christian Science practitioner, veterinarian, funeral director, lawyer, accountant, professional engineer, and architect).

(3) State and local government employees under State-Federal agreements, except that those under an existing retirement system cannot be covered and except for certain transit workers who are compulsorily covered.

(4) Regularly employed nonfarm domestic workers (based on at least 24 days of work and \$50 of cash wages during a quarter).

(5) Regularly employed farm workers, including farm domestic workers. To be "regularly employed" requires continuous employment by employer for full calendar quarter as noncovered "qualifying quarter" and then succeeding, continuous quarters which have at least 60 days of full-time work and \$50 of cash wages.

(6) Employees of nonprofit institutions covered on elective basis. Employer must elect coverage, and at least two-thirds of employees must concur in coverage. Then all employees concurring in coverage and all new employees are covered.

(7) Federal employees are not covered under retirement system other than those in very temporary or casual employment and those in several specifically excluded categories.

(8) Definition of "employee" has been broadened from strict common-law rule to include following groups as "employees": Full-time wholesale salesmen; full-time life-insurance salesmen; agent-drivers and commission drivers distributing meat, vegetable, or fruit products, bakery products, beverages (other than milk), or laundry or dry-cleaning services; and industrial homeworkers paid at least \$50 in cash during a quarter if subject to regulations under State law and working under specifications supplied by employer.

VII. Wage credits for World War II and subsequent military service

World War II veterans and those in service thereafter (including those who die in service) are given wage credits of \$160 for each month of active military service in World War II and thereafter through 1953, except that credit is not given if service is used for any other Federal retirement or survivor system (other than compensation or pension payable by the Veterans' Administration); additional cost is to be borne by trust fund.

VIII. Maximum annual wage and self-employment income for benefit and contribution purposes

\$3,600 per year for 1951 and after (\$3,000 per year prior thereto).

IX. Tax (or contribution) rates

(a) $1\frac{1}{2}$ percent on employer and $1\frac{1}{2}$ percent on employee through 1953, 2 percent for 1954-59, $2\frac{1}{2}$ percent for 1960-64, 3 percent for 1965-69, and $3\frac{1}{4}$ percent thereafter.

(b) For self-employed, the rate is $1\frac{1}{2}$ times that for employees. Self-employment income taxed is, in general, net income from trade or business.

(c) No provisions for authorizing appropriations from general revenues to assist in financing the program.

XIV. MEMORANDUM ON LEGISLATION FREEZING THE SOCIAL SECURITY TAX

(Prepared at the request of the chairman of the subcommittee by the American Law Division of the Legislative Reference Service, Library of Congress)

Reference is made to your request of August 10, 1953, for a list of the legislation on the above subject, together with citations to any record votes on the bills. In several instances the legislation was part of large revenue measures, and because of this we have limited record vote citations to those concerned with the social-security tax. The social-security tax was provided for by the act of August 14, 1935 (Public Law 271, 74th Cong., 49 Stat. 620, ch. 531, title VIII, sec. 804 (Social Security Act.)) This was superseded by section 1410 of the Internal Revenue Code (53 Stat. 175). The information requested follows:

Act of August 10, 1939 (Public Law 379, 76th Cong., 53 Stat. 1383, ch. 666, title VI, sec. 604 (H. R. 6635, 76th Cong.)), reduced rate for years 1940, 1941, and 1942, from 1½ to 1 percent.

Act of October 21, 1942 (Public Law 753, 77th Cong., 56 Stat. 798, ch. 619, title VII, sec. 701 (b) (H. R. 7378, 77th Cong.)), froze rate of 1 percent for 1943.

Record vote in Senate on committee amendment to freeze tax at existing level (88 Congressional Record 8010).

Act of December 22, 1943 (Public Law 211, 78th Cong., 57 Stat. 607, ch. 375, sec. 3 (b) (H. J. Res. 171, 78th Cong.)), froze rate of 1 percent for the first 2 months of 1944.

Act of February 25, 1944 (Public Law 235, 78th Cong., 58 Stat. 93, ch. 63, title IX, sec. 901 (b) (H. R. 3687, 78th Cong.)), froze rate of 1 percent for 1944.

Record vote in Senate on committee amendment that for 1 year from January 1, 1944, social-security taxes be frozen at existing rates (90 Congressional Record 50).

Act of December 16, 1944 (Public Law 495, 78th Cong., 58 Stat. 813, ch. 600, sec. 1 (h) (H. R. 5564, 78th Cong.)), froze rate of 1 percent for 1945.

Record vote in House on passage, tax under Federal Insurance Contributions Act (90 Congressional Record 8862).

Record vote in Senate on passage, tax under Federal Insurance Contributions Act (90 Congressional Record 9054).

Act of November 8, 1945 (Public Law 214, 79th Cong., 59 Stat. 576, ch. 453, title IV, sec. 401 (b) (H. R. 4309, 79th Cong.)), continued the 1 percent rate through the calendar year 1946 and made the 2½ percent rate applicable to wages paid during the calendar years 1947 and 1948.

Act of August 10, 1946 (Public Law 719, 79th Cong., 60 Stat. 978, ch. 951, title I, sec. 102 (H. R. 7037, 79th Cong.)), continued the 1 percent rate through 1947 and deferred application of the 2½ percent rate until 1948.

Act of August 6, 1947 (Public Law 379, 80th Cong., 61 Stat. 793, ch. 510, sec. 2 (H. R. 3818, 80th Cong.)), continued the 1 percent rate through 1949 in clause 1 (years 1939-49), reduced rate to 1½ percent through 1951 in clause 2 (years 1950-51), and reduced rate to 2 percent after December 31, 1951, in clause 3 (after December 31, 1951).

Act of August 28, 1950 (Public Law 734, 81st Cong., 64 Stat. 524, ch. 809, title II, sec. 201 (b) (H. R. 6000, 81st Cong.)), increased rates as of January 1, 1951.

XV. SURVEY OF FOREIGN-SOCIAL INSURANCE PLANS FOR THE AGED AND SURVIVORS WITH RESPECT TO CITIZENSHIP, RESIDENCE, AND FINANCING ASPECTS

A review of the compulsory old-age and survivors insurance systems of 26 major foreign countries, based on such information as is available, suggests that citizenship and residence requirements are not normally a part of the pattern of such contributory programs. Three of the countries, Finland, Iceland, and Switzerland, do make residence or citizenship requirements in connection with their contributory old-age insurance programs. In two of these countries (Finland and Switzerland) employees and employers make equal contributions as a percent of payroll, and the Government shares in the cost. In the third country, Iceland, employers make no payments, the plan being financed by employees and the Government, except in the case of apprentices where employers pay the full cost.

On the whole, residence and citizenship requirements seem to be more common in noncontributory pension or assistance plans designed usually for persons

of small means within a country, often as a supplement to an old-age and survivors insurance system. This difference grows in part out of the differing financial structure of the two programs. Assistance programs are usually financed directly by the government, either from the general revenues, or through income or sales taxes levied for this purpose on the whole population. The contributory old-age and survivors insurance programs, on the other hand, use payroll taxes directly related to the employment record of individual workers. The fact that these taxes are usually paid by the employee, as well as by the employer and/or the government on the basis of employment income, has tied eligibility under social insurance more directly to employment records than to citizenship or residence requirements. In such programs there is, of course, an assumption that a sustained employment record within a country indicates a substantial period of residence in that country.

The following summary of the 3 countries whose old-age and survivors insurance plans—as distinct from their assistance plans—do contain residence or citizenship requirements outlines these requirements and compares the financial arrangements under each such plan.

I. COMPULSORY CONTRIBUTORY OLD-AGE INSURANCE PLANS WITH CITIZENSHIP OR RESIDENCE REQUIREMENTS

Finland.—Covers citizens aged 18 to 64. Financed by equal employer-employee payments as percent of payroll up to maximum. Government bears cost of supplementary pensions.

Iceland.—Covers resident citizens. Financed by employee payments and Government contributions. Employee payments divided according to towns of 2,000 occupants and above. Government (including municipalities) shares in costs by meeting deficits. Employers make no contribution, except that they bear the full cost of apprentice contributions.

Switzerland.—Covers resident citizens, noncitizens working in the country, citizens working abroad for Swiss employers. Excludes residents covered by foreign old-age insurance systems, those having diplomatic immunity, and foreign personnel of any international organization.

Financed by employee, employer and Government contributions. Employer and employee pay equal amounts as percentage of payroll. Government furnishes subsidies with costs divided between the confederation and the cantons.

Although the assistance programs are, as noted, significantly different in their purpose, in their methods of financing, and in their structure from the old-age and survivors insurance systems, a brief summary of those which contain residence or citizenship requirements may here be included, before proceeding to the summary of the 23 old-age and survivors insurance plans which base eligibility on employment, rather than on residence or citizenship.

In Argentina, Finland, and Uruguay, for example, the supplementary assistance programs make residence a requirement, and in Uruguay aliens must have been resident in the country for 20 years.

Both citizenship and residence are qualifying conditions in the old-age assistance programs of 3 European countries, France, the Netherlands, and Switzerland.

In Belgium, residence is a requirement under a voluntary plan which is subsidized by the Government.

The Swedish old-age pension plan requires citizenship and Norway's old-age assistance plan requires that the recipient must have been resident in the country for not less than half of the period since reaching age 16 and for at least 5 years preceding the claim.

In the British Commonwealth countries, old-age pensions likewise contain residence or citizenship requirements. Great Britain, Ireland, and the Union of South Africa all make a citizenship or substantial residence requirement. In Great Britain, the applicant must have been a British subject for 10 years; native-born British subjects must have resided in the country for 12 years after age 50; and applicants who are not native born must show 20 years of residence. Ireland requires 30 years' total residence in the country; citizens must have lived within the country 6 years after age 50, and aliens 16 years after age 50. The Union of South Africa requires that the applicant must have been a British subject for at least 5 years and have 15 years of residence in the 20 years immediately preceding the claim; or, for aliens, 25 years' residence in the 30 years immediately preceding the claim.

Australia, Canada, and New Zealand all have residence requirements. Australia and New Zealand require 20 years of residence within the country, with allowance for occasional absences caused by war or absence during which the applicant paid income tax. Canada's universal old-age pensions system requires residence in Canada for 20 years immediately preceding approval of the claim or, if not a resident for this period, the applicant must have been present in the country prior to that 20 years for a period totaling at least double any absences during the 20 years. Finally, the applicant must have been resident for 1 year immediately preceding approval of the claim.

II. COMPULSORY CONTRIBUTORY OLD-AGE AND SURVIVORS INSURANCE PLANS LACKING CITIZENSHIP OR RESIDENCE REQUIREMENTS

The 23 countries whose old-age and survivors insurance plans do not contain citizenship or residence requirements are summarized below. They are grouped according to the financing arrangements especially as they reflect employee and employer contributions made as a prescribed percentage of payroll, and as they suggest how the respective governments do or do not participate directly in the financing of the plans.

A. Plans financed entirely by employer and employee contributions (no contribution by the Government).

Belgium.—Covers employees in industry, commerce, and agriculture (including domestic service). Financed by: Equal payments by employees and employers as a percentage of earnings up to a maximum. Employers pay slightly higher percentage on salaries.

France.—Covers gainfully occupied persons. Financed by employee-employer contributions as percentage of earnings up to a maximum. Employer pays slightly higher percentage which, however, includes contribution for health and maternity insurance. Employers and employees pay equal contributions for agricultural workers.

Greece.—Covers gainfully occupied persons (but not agricultural or domestic workers). Financed by employer-employee contributions as percentage of earnings—slightly higher for employers.

Hungary.—Covers employed persons. Financed by employee-employer contributions as percentage of earnings—employer paying three times the amount of employee. Except system for agricultural workers financed by employer contribution based on wages and annual contribution from the Government if necessary.

Portugal.—Covers majority (about two-thirds) of employees in commerce and industry. Financed by employee-employer contributions as percentage of earnings up to a maximum—employers being three times amount paid by employees.

Spain.—Covers employed persons in industry and commerce. Financed by employer-employee taxes as percentage of earnings—employer taxes being three times amount paid by employees.

Yugoslavia.—Covers most employed persons. Financed by employee-employer taxes as percentage of earnings—employer being more than double the amount paid by employees. Government makes no contribution except as employer.

B. Plans financed entirely by employers and/or Government (no contribution by employee).

Bulgaria.—Covers most gainfully occupied. Financed by full contribution by employers for employees. Government makes no specified contribution (except as an employer) beyond meeting costs of a 20-percent reduction in employer contributions on behalf of members of certain unions of workers in science and arts.

Netherlands.—Covers employed persons with low earnings. Financed by: employer payments using a flat rate varying with age and sex of insured, and government contribution covering deficit and cost of special supplements.

Poland.—Covers employed persons, including agriculture. Financed entirely by employer contribution—as percentage of wages.

Union of Soviet Socialist Republics.—Covers employees, including certain students. Financed by employer contributions based on payroll, the Government paying the full contribution as the employer.

C. Plans financed by employers, employees, and government at fixed contributions schedule for governments as well as employers and employees

Brazil.—Covers most employees. Financed by equal payments by employer, employee, and government as percentage of earnings up to a maximum.

Chile.—Covers employees and independent workers. Financed by employee (2 percent of earnings), employer (5 percent of earnings) and government (1.5 percent of earnings). Government and part of employer contribution include costs of health and maternity insurance.

Italy.—Covers employees (except public employees). Financed by employee contribution as percent of earnings; employer contribution, using basic amount plus supplement based on percent of earnings, and Government contribution in the form of a flat sum each year for each pension.

Japan.—Covers employees in establishments hiring 5 or more. Financed by equal contributions, as percent of earnings, by employers and employees. Government pays one-tenth of cost of benefits (one-half for miners).

Mexico.—Covers employed persons. Financed by employer and employee contribution as percent of earnings up to a maximum. Employer contribution double that of employee. Government and employee pay equal amounts.

Paraguay.—Covers wage earners and salaried employees. Financed by employer-employee-government contributions as percent of payroll up to a maximum. Employee 2 percent, employer 5 percent, government 1.5 percent.

Peru.—Covers employees. Financed by employer, employee, and Government contributions as percent of earnings. Employee 1.5 percent, employer 3.5 percent, government 1.0 percent (2.5 percent for apprentices).

D. Plans financed by employers, employees, and government (fixed rates for employer and employee but no fixed contribution by government)

Austria.—Covers employees (separate systems for salaried employees, agricultural workers, etc.). Financed by equal employer-employee contributions as percent of earnings. Government covers deficits.

Czechoslovakia.—Covers employees (including housewives). Financed by equal employer-employee contributions as percent of payroll up to a maximum. Government contributes an amount to establish reserves equal to three times the sum of benefits paid in 1949—to be accumulated by the end of 1956 and paid thereafter.

Argentina.—Covers employees of commerce and industry. Financed by employer-employee payments (slightly larger for employers) as percent of payroll. Government bears cost-of-living increases and deficits financed by sales taxes on specific articles and appropriations from the general revenue.

Germany (United States and British Zones).—Covers employees. Financed by equal employer-employee contributions as percent of payroll up to a maximum. Government covers deficits and pays costs of administration for local and regional offices.

Uruguay.—Covers employees (except those with their own retirement system). Financed by employer-employee contributions (about double for employers) as percent of payroll. Government meets deficits from proceeds of various taxes, including sales taxes.

XVI. COMPARISON OF CERTAIN ASPECTS OF THE SOCIAL-SECURITY PROGRAMS OF THE UNITED STATES, GREECE, ITALY, IRELAND AND ISRAEL

I. OLD-AGE AND SURVIVORS INSURANCE (COMPULSORY AND CONTRIBUTORY)

	United States	Greece	Italy	Ireland	Israel
Coverage-----	Most employees (except public employees) and self-employed (except self-employed farmers).	Most employees, including Government workers and members and executives of trade unions (also 58 separate systems for artisans, tobacco workers, etc., and 28 supplementary insurance plans). ^{1 2}	Most employees in industry, commerce and agriculture between ages 14-60 for men and 14-55 for women (public employees excluded). ^{1 3}	Most employees between 16 and 70 including public workers (excludes workers earning in excess of £600 a year and certain casual workers). Also voluntary contributions can be made for widow and orphan pension purposes. ^{1 4}	None now operating. in planning stage. ¹
Benefit formula-----	Fixed amount calculated in proportion to contribution.	Fixed amount calculated in proportion to contribution. Supplemented by family allotment, and tuberculosis increases. ^{1 2}	Fixed amount calculated in proportion to contribution. Supplemented by cost of living and other increases such as 10 percent for each additional child. ^{1 3}	Fixed amount for each risk covered. ^{1 4}	Do.
Entitled beneficiaries.	Retired worker after age 65. Wife of insured worker at or after age 65. Survivors of deceased worker. Widow or dependent widower after age 65. Widow (or adult) caring for children under 18. Children under 18. Dependent parents.	Retired worker: Men at age 65, women at 60. Survivors of deceased worker: Family members, i. e., widow, invalid, or indigent husband, child up to age 18 (or to age 21 if they are studying), orphans, grandchildren, dependent parents, or relatives. ^{1 2}	Retired worker at age 60 for men, 55 for women. Survivors of deceased worker: Widows or invalid widowers; children to age 16 (wage earner), or age 18 (salaried worker). ^{1 3}	None for retired workers under insurance program. Unemployed or incapacitated worker at age 65 can draw continuous unemployment-insurance benefit up to age 70, when he can apply for noncontributory old-age pension subject to means test. Survivors of deceased worker: Widow and each of 2 children under 16 are eligible. ^{1 4 5}	Do.
Eligibility requirement.	40 quarters (10 years) in covered employment or half of the quarters between 1936, 1950, or age 21.	750 days of covered employment (lump-sum payment rather than benefits to worker with at least 300 days). ^{1 2}	Basic sum varying with amount of contributions. Elapsed time of 15 years since first contribution. ^{1 3}	Widows: 156 weekly employment contributions by worker and if over a period of 4 years or more, at least 39 weekly contributions per year preceding death or retirement. Orphans: Not less than 26 weekly employment contributions by parent or stepparent. ^{1 4}	Do.
Work clause-----	Benefit suspended for any month beneficiary earns more than \$75.	Benefit suspended for any month beneficiaries earn more than half the usual wage of the work category to which they belong. ⁶	For employed pensioners employer deducts 25 percent of the amount of the pension from wages paid. ⁷	None. ⁸ -----	Do.

Residence or citizenship requirement for receiving benefits.	None.....	No legal requirement but special committees decide whether to remit or suspend payment. ⁶	None. Reciprocity agreements with most Western European countries cover work outside Italy for a period of 6 months, extendable to 1 year under certain circumstances. ⁷	Generally local residence required—exceptions being reciprocal arrangements with Great Britain and informal exemption for Northern Ireland, both providing payment full amount. No distinction between nationals and aliens. ⁸	Do.
Residence or citizenship requirement for working.	No restrictions except in certain contract jobs for defense material with security classification which require exceptions for noncitizens. Certain States and localities (voluntary coverage under OASI) and the Federal Government (not covered by OASI) require citizenship for employees.	Civil code regulates employment aliens in "covered employment." Alien seeking work must secure approval of Labor Ministry before entry. After entry, alien must obtain residence permit from Ministry of Public Order. If approved by both agencies, alien receives employment card. Because of unemployment situation work permits now granted only in special cases, except in case of foreign companies engaged by the Greek Government on contract where concurrence of Ministry of Coordination is required. ⁶	No provisions of law or administrative regulations restrict employment of aliens in covered employment, but "bureaucratic obstacles and local prejudices arising from intense unemployment provide 'unofficial' checks." Aliens seeking employment must have permesso di soggiorno (residence permit) from Ministry of Interior, usually through local questura. This permit presented to office of labor inspector, where alien is granted "labor book" to be presented to local office of Labor Ministry. ⁷	Except for nationals of Commonwealth countries an employer must obtain permit for all alien employees from Minister of Industry and Commerce. "Such permits readily granted when not in conflict with employment conditions of Irish labor market and subject approval Department of Justice on personal character." ⁸	Do.
Contributions.....	Currently 1½ percent each on employee and employer of wages up to \$3,600. Scheduled to increase to 2 percent each on Jan. 1, 1954. No Government contribution.	Employer and employee contribution at rates higher in Athens than for rest of country. Higher rates for employers include costs of health insurance plan. No Government contribution. ¹	Percentage of wages up to maximum. Employees: 1.9 percent. Employers: 16 percent (including accident, inability, and unemployment coverage). Government: 14 percent for old age and inability. ¹	Flat rate: For men 2s 4d per week each by employee and employer. For women: 2s weekly for employer, 1s 4d for employee. Government: Varying State grants. ¹	Do.

See footnote at end of table.

XVI. COMPARISON OF CERTAIN ASPECTS OF THE SOCIAL-SECURITY PROGRAMS OF THE UNITED STATES, GREECE, ITALY, IRELAND AND ISRAEL—Continued

II. PUBLIC ASSISTANCE PLANS FOR OLD-AGE AND SURVIVING WIDOWS AND CHILDREN (NONCONTRIBUTORY)

	United States	Greece	Italy	Ireland	Israel
Eligibility age.....	Dependent aged 65 or over. Dependent children under 18 (including adult caring for them).	Dependent aged and children (see below). ^{1 2}	No formalized assistance-type national program. Charitable programs and foundations for these purposes, under the auspices of the Roman Catholic Church, operate under municipal boards of charity which include representatives of the podesta and of the registered occupational unions or syndicates. Medical aid for needy paid by minister of the interior. A special official works for the relief of maternity and childhood (working directly or through subsidiaries) provides for destitute or deserted mothers and children. Financed by endowments, donations, proceeds of a tax on bachelors, and Government contributions. National legislation in this area is designed to coordinate existing activities while preserving their voluntary character. ^{1 2}	Dependent aged 70 and over. Dependent widows aged 48 to 70 or under 48 if caring for at least 1 child under 16. ^{1 4}	Trade union plan. Men over 65, women over 60. Rest depend on individual case. ⁵
Amount.....	Determined for each case under policies determined by States.	Determined for each case on recommendation of church. ^{1 2}	-----	Set in prescribed amounts for each of above. ^{1 4}	Determined in each case under specifications set by ministry of social welfare or trade union plan. ⁵
Residence or citizenship requirement.	Residence requirements set by States. Some make citizenship a requirement.	Resident or citizenship as determined by church in individual cases. ^{1 2}	-----	30 years' total residence in country; citizens 6 years since age 50; aliens 16 years since age 50. ^{1 4}	None. ⁵
Financed.....	By Federal-State grants-in-aid.	Half private, half public funds. ^{1 2}	-----	Entirely by government. ^{1 4}	By trade unions for their members and by government for the rest. ⁵

¹ International Labor Office, International Survey of Social Security (Geneva, 1950), Studies and Reports New Series No. 23, and Federal Security Agency, Social Security Administration, Social Security Legislation Throughout the World, Bureau Report No. 16; 1st supplement, Mar. 8, 1951; 2d supplement, May 1952, and 3d supplement, June 1953.

² Press release on the Government Institute for Social Security, 1951 and information furnished by the Greek Embassy.

³ Ministero del lavoro e della Previdenza Sociale, La previdenza sociale alla fine del, 1952 and information furnished by the Italian Embassy.

⁴ [Government of Ireland] Summary of the Social Services, Administered by the Department of Social Welfare as at January 1953 [Dublin, 1953] and information furnished by the Irish Embassy.

⁵ Israeli Yearbook, 1952-53, and information furnished by the Israeli Embassy.

⁶ Telegram of Nov. 28, 1953, from U. S. Embassy, Athens, to Secretary of State.

⁷ Telegram of Nov. 27, 1953, from U. S. Embassy, Rome, to Secretary of State.

⁸ Telegram of Dec. 2, 1953, from U. S. Embassy, Dublin, to Secretary of State.

XVII. PAY-AS-YOU-GO FEDERAL SOCIAL SECURITY FOR ALL

(As provided for in H. R. 2446)

ELIGIBILITY FOR BENEFITS

1. Every citizen 60 years of age or over who is retired from gainful occupation.
2. Every widow who is a citizen, so long as she has one or more dependent children under 18.
3. Beneficiaries could support no able-bodied adults in idleness, except their pation for at least 6 months and so long as such disability continues.

RETIREMENT TESTS

1. No beneficiary could engage in any occupation for gain.
2. Beneficiaries would have to spend their benefits for the purchase of goods, commodities and services in the United States and its territories.
3. Beneficiaries could support no able-bodied adults in idleness, except their spouses.

AMOUNT OF BENEFITS

1. Benefits would be paid in equal amounts to all beneficiaries, monthly.
2. Revenues, less administrative costs, would be entirely disbursed monthly in benefits, equally divided between all beneficiaries. Thus, benefits would vary monthly according to changes in business conditions, prices and living standards.

FINANCE

1. Instead of present social-security taxes, an earmarked tax of 2 percent would be levied on: (a) The gross income (gross receipts) of all companies and other business concerns; and (b) all personal incomes, regardless of source, in excess of \$250 monthly.

Question. How many citizens, 60 years of age or over, do you estimate would have been retired from gainful occupation under H. R. 2446 in the calendar year 1953?

Answer. 14,500,000 citizens 60 years of age and over, retired from paid occupation, would have been beneficiaries of H. R. 2446 in 1953.

Question. How many widowed citizens, with one or more dependent children under 18, would have been beneficiaries of H. R. 2446 in 1953?

Answer. 1,175,000 widows with one or more dependent children under 18 would have been beneficiaries in 1953.

Question. How many citizens, aged 18 to 60, disabled for gainful occupation for at least 6 months, do you estimate would have been beneficiaries in 1953?

Answer. 2,200,000 citizens between 18 and 60 disabled for gainful occupation for more than 6 months would have been beneficiaries of H. R. 2446 in 1953.

Question. How much revenue do you estimate would have been collected in 1953 by the 2 percent tax on all business' gross income and on personal incomes in excess of \$250 monthly?

Answer. Monthly revenue collections under the 2 percent gross income tax proposed in H. R. 2446 would have averaged about \$2.5 billion in 1953.

Question. How much would benefits have averaged monthly to each of the qualified citizens under this plan in 1953?

Answer. In 1953, each beneficiary under H. R. 2446 would have received monthly benefits averaging about \$140.

XVIII. STATEMENT BY EMILY CUYLER HAMMOND ON CITIZENS PENSIONS

This presents a plan of social-security reform, tentatively entitled "Citizens Pensions," based on a proposal made by Senator Hugh Butler, of Nebraska, in 1950.

Predicated upon the full, equitable liquidation of the present OASI-OAA system, the purpose of citizens pensions would be to provide for the essential needs of individuals age 65 and over who are unable to provide adequately for themselves, without impairing the incentives to work or to save of those who can.

It would be pay as you go, financed out of general revenue or by the levy of an income surtax. It would be full coverage in the sense that every American citizen, rich or poor, who had not been a public charge most of his life, would be eligible for pension after age 65, provided his income fell beneath a given maximum. And it would be self-administered in the sense that the income tax is self-administered today.

Every American, man or woman, at age 64, upon application would be given the proper forms and, in the event that pension were assumed to be warranted, asked to return to the Bureau of Internal Revenue:

A. A statement of status: Name, address, etc., and number of years, if any, on public assistance (excluding aid to dependent children, aid to the blind, and other disability programs).

B. A declaration of gifts made in contemplation of pension: Any gift in excess of \$3,000 made in any of the 5 years immediately preceding reaching the age of 65 (the average total allowance for gifts made in contemplation of pension, \$15,000).

C. A declaration of capital assets: Real property (location and assessed value); interests in unincorporated businesses or partnerships; stocks; bonds; savings in cash and/or deposits; fiduciaries and trusts (the average total capital assets allowance for pension purposes, \$15,000) without lien.

D. A special declaration of estimated income for pension purposes: Adjusted gross income (found on p. 1, item 4 of United States Individual Income Tax Return Form 1040); income earned abroad; pensions (in addition to those reportable for income-tax purposes and other than veterans' pensions awarded for service-connected disability); i. e., railroad retirement, etc.; annuities (in excess of amount computed as annual value of capital assets allowance plus interest); gifts (in excess of \$300 in 1 year, but excluding property in kind for personal use); inheritances (in excess of \$300 cash and/or real estate which would raise the capital assets allowances above the regional limit, but excluding property in kind for personal use).

The husband and wife cases, each would be assumed to have half their combined property and income. For example, if a man and wife over 65 had a house and farm worth \$22,000 and an income of \$3,000, each would be assumed to have \$11,000 in capital assets, and \$1,500 in income and would receive citizens pensions accordingly. If a man over 65 and his wife under 65 had a house and farm worth \$22,000 and income of \$3,000, each would be assumed to have half; he would receive a pension, but being under 65, she would not. If a man over 65 and his wife under 65 had a house and farm worth \$22,000, he had an income from farming of \$1,000 and she had an income from a trust estate of \$4,000, each would be assumed to have \$2,500 which would make it unnecessary for him to have a citizens pension.

A table similar to that now used with the simplified income-tax forms, would advise the applicant the amount of his pension. If his income for pension purposes were under \$600, he would receive a citizens pension of—for example—\$600 or \$50 a month. If his income were over \$600, his citizens pension would be diminished by \$1 a month for every \$25 more of annual income, tapering off altogether at \$1,825.

Revised declarations of estimated income for pension purposes could be made quarterly, so that the sudden loss of a job would entail no hardship.

Dependents and survivors now covered by OASI would be eligible for citizens pensions under the citizens pensions eligibility requirements. Younger persons would not be provided for under the new program as at present envisioned; while children eligible for ADC would be cared for under that program.

If in 1953 citizens pensions had been in effect long enough so that OASI-OAA already had been entirely liquidated and no longer influenced the new system, out of an aged population of 13,100,000, 10,542,000 or 80.5 percent would have received citizens pensions in some denomination, while 2,558,000 or 19.5 percent with incomes for pension purposes of \$1,850 and over would have received no citizens pension. The cost would have amounted to \$4.90 or 2.2 percent of adjusted gross income or a somewhat higher percentage as a surtax after income taxes.

The following cost study has been prepared by the distinguished actuary, Mr. John S. Thompson, who was a member of the staff of the Mutual Life Insurance Co., New York, 1905-26 and an officer of the Mutual Benefit Life Insurance Co. of Newark, N. J., first as mathematician and finally as President, 1946-53; now retired. He was President of the Actuarial Society of America 1932-34; and has been for many years and is a fellow of the leading actuarial societies of the United States and Great Britain.

CITIZENS PENSIONS

(Cost Study)

In estimating costs, whether long range or short range, of any new old-age benefit plan—or even of changes in an existing plan—a wide margin of variation from probable results must be expected in consequence of events and conditions which cannot be predicted. This is amply demonstrated by the history of social security. Not only did the early 1935 estimates of costs of old-age benefits differ from those actually observed, due to inexperience with work and retirement patterns, but the 1939 estimates were made enormously difficult by the amendments introducing dependents and survivors as beneficiaries—to mention only a few of the influences which affected the most skillful predictions. The 1950 and 1952 amendments further confounded the cost estimates. In spite of the guidance given by 10 or more years of experience, the short-range projections were considerably wide of the mark, and, with the propensity of Congress to change the law every few years, the accuracy or inaccuracy of the long-range projections may never be known.

The same may be said with varying degrees of emphasis, of the cost estimates pertaining to the various bills for amendments of the present OASI system.

Such a new plan as now proposed, which would pay benefits on a sliding scale to persons over 65, working or retired, whose capital assets and annual incomes are below a given level, while simpler than the present system, would of course also be subject to demographic and economic trends, and its cost estimates would be influenced by any unpredictable changes.

Even for the year 1953, all factors affecting the cost of citizens pensions are not obtainable with exactitude since the plan was not in operation during 1953 and we do not know, for instance, how many eligible persons might simply have failed to apply for benefits.

However, there is certain basic information from which, with reasonable assumptions, useful conclusions may be drawn. For example:

A. Bureau of Census, Department of Commerce: The population over 65 in 1950—approximately 12,270,000.

B. Bureau of Internal Revenue, Department of the Treasury: The total number of exemptions for age (over 65) and/or blindness in 1950 (the latest year for which such returns are available) namely 4,914,351. This number classified according to taxable and nontaxable returns; according to returns for single persons, separate returns of husbands and wives and joint returns of husbands and wives; and broken down into adjusted gross income groupings of under \$600 and thence by \$150 and \$250, jumps to incomes of \$5,000 or more.

C. Department of Health, Education, and Welfare: The total number of blind (including all ages and whether or not receiving Federal aid) namely 260,000.

D. The Federal Reserve Board: Data from the "Survey of Consumer Finance" as to percentage of persons 65 and over owning their own homes, differentiated as to annual incomes and as to urban or rural residence. Also the percentage of persons 65 and over having net worth, differentiated as to amount.

After adjusting for cases of blindness, it was estimated that the number of aged persons represented by income returns to the Bureau of Internal Revenue was, in 1950, approximately 4,654,000, and thus that number of aged persons not filing returns was approximately 7,616,000. Since "adjusted gross income" under the proposed plan would be only one measure of income for pension purposes, allowance was made for railroad retirement payments, partially tax-exempt pensions and annuities from life-insurance companies, various kinds of capital assets in excess of permissible maximums, inheritances and gifts in excess of permissible maximums, income earned abroad, etc. Then both groups of aged—those represented by tax returns and those not so represented were redistributed into income groupings for pension purposes—under \$600, \$600–\$749, \$750–\$999, etc.—and carried forward to 1953, 1955, 1960, 1980, and 2000 as set forth in table I.

The principles and methods followed in these projections were substantially the same as those utilized by the actuaries of the Department of Health, Education, and Welfare in Actuarial Study No. 36, published by the Department in June 1953. In regard to the levels of net worth and of income which would have particular bearing on such a program as citizens pensions, weight has been given the rising incidence of home ownership and of savings after age 65. Considerable weight also has been given to the fact that the maturity of old-age pensions from other sources—railroad retirement, etc., and, notably, from personal and corporate pension plans carried by life-insurance companies and other corporations—will

operate gradually to increase the average level of retirement incomes so that, ultimately, the proportions of persons receiving the smaller incomes may be considerably less, and of those receiving the larger retirement incomes considerably greater, than at present. For example, considering group annuities alone, while there are today only 180,000 now being actually paid (Life Insurance Face Book, 1953, p. 29), there are 2,527,000 employees covered who are below the retirement age but of whom a large proportion will be drawing pensions in later years. In addition, it is anticipated that, in line with a moderate current trend, the employment of persons at ages immediately above age 65 may tend to increase and thus lighten the burden of old-age benefits.

Table II shows citizens pensions costs in contrast to the present OASI-OAA system and several modifications.

It will be noted that, whereas citizens pensions would have cost \$4.9 billion for 1953 as against only \$3.9 billion for the present OASI-OAA system (table II, cols. 1 and 2), citizens pensions would have been paid to 10,542,000 men and women over 65 all of whom would have had incomes for pension purposes below \$1,850 (table I). At the same time, OASI and OAA benefits went to only 7,937,000 persons including OASI primary beneficiaries, dependents and survivors, and at least some OASI primary beneficiaries as well as survivors are known to have incomes considerably in excess of \$1,850.

It will be further noted that in 1953 citizens pensions would have cost considerably less than OASI with universal employment coverage and with the present aged blanketed in at a minimum \$30 monthly benefit—either with or without the work clause.

However, on the cost side, the underlying important difference between citizens pensions and OASI-OAA, or any of the proposed amendments thereto, is that citizens pensions would be flexible. If economic conditions were bad, aggregate citizens pensions costs would automatically go up to protect those in need. If economic conditions continued to improve, citizens pensions costs would decline. OASI, on the other hand, as now constituted, must continue to grow whether the individuals concerned, or the economy as a whole, benefit by it or not. Table II illustrates the point: under similar high employment and level wage assumptions in the year 2000, the present OASI-OAA system with universal employment coverage and with the present work clause would cost \$18.1 billion, as against \$7.6 billion for citizens pensions—a saving of some \$10.5 billion.

TABLE I.—*Citizen pension beneficiaries according to income group, pension amount, number of beneficiaries, and percentage of total aged population*

[Number of persons in thousands]

Citizens pensions income group	Average monthly pension	1953		1955		1960		1980		2000	
		Number of aged persons	Percent of total aged	Number of aged persons	Percent of total aged	Number of aged persons	Percent of total aged	Number of aged persons	Percent of total aged	Number of aged persons	Percent of total aged
Under \$600.....	\$50	3,249	24.8	3,447	24.8	3,555	23.7	4,365	19.4	4,077	15.1
\$600 to \$749.....	46	2,122	16.2	2,252	16.2	2,355	15.7	3,038	13.5	3,051	11.3
\$750 to \$999.....	38	2,201	16.8	2,335	16.8	2,475	16.5	3,420	15.2	3,753	13.9
\$1,000 to \$1,249.....	29	1,451	11.1	1,543	11.1	1,665	11.1	2,475	11.0	2,943	10.9
\$1,250 to \$1,499.....	20	838	6.4	890	6.4	975	6.5	1,575	7.0	1,998	7.4
\$1,500 to \$1,749.....	11	511	3.9	542	3.9	600	4.0	1,035	4.6	1,431	5.3
\$1,750 to \$1,850.....	3	170	1.3	181	1.3	210	1.4	383	1.7	540	2.0
Total beneficiaries, \$1,850 and under.....		10,542	80.5	11,190	80.5	11,835	78.9	16,291	72.4	17,793	65.9
Nonbeneficiaries, \$1,850 and over.....		2,558	19.5	2,710	19.5	3,165	21.1	6,209	27.6	9,207	34.1
Total aged population ¹		13,100	100.0	13,900	100.0	15,000	100.0	22,500	100.0	27,000	100.0

¹ Mean of high-cost and low-cost population figures from Department of Health, Education, and Welfare, Social Security Administration, Actuarial Study No. 36, June 1953, p. 24.

TABLE II.¹—*Citizens pension cost estimates as compared with the present OASI-OAA system and several modifications*

[All amounts in millions of dollars]

INTERMEDIATE COST ESTIMATES

Calendar year	Citizens' pensions ²	Present OASI-OAA system ³		Present OASI-OAA system universal employment coverage ³		Universal employment coverage paying present aged \$30 a month	
		Present work clause	No work clause	Present work clause	No work clause	Present ⁴ work clause	No work clause
1953-----	\$4,900	\$3,905	\$5,305	-----	-----	-----	-----
1955-----	5,200	4,910	6,218	\$4,910	\$6,208	\$5,836	\$7,144
1960-----	5,500	6,479	7,921	7,050	8,885	7,801	9,636
1980-----	7,200	12,004	13,912	14,065	16,830	13,991	16,756
2000-----	7,600	15,718	17,710	18,140	21,054	17,694	20,608

¹ All figures pertaining to the OASI-OAA type system supplied by Robert J. Myers, Chief Actuary, Social Security Administration, U. S. Department of Health, Education, and Welfare.

² Covering persons over 65 with incomes for pension purposes under \$1,850—assuming younger persons in need to be taken care of under States programs.

³ Covering OASI primary beneficiaries, dependents, survivors, etc., and Federal share of OAA but excluding States share of OAA.

⁴ Excluding wives 65 and over of men 65 and over who are working from the \$30 "blanketing in" payment.

If your annual income for pension purposes is—	Your monthly citizens pension is—	Your annual citizens pension is—
0 to \$600	\$50	\$600
\$601 to 625	49	588
626 to 650	48	576
651 to 675	47	564
676 to 700	46	552
701 to 725	45	540
726 to 750	44	528
751 to 775	43	516
776 to 800	42	504
801 to 825	41	492
826 to 850	40	480
851 to 875	39	468
876 to 900	38	456
901 to 925	37	444
926 to 950	36	432
951 to 975	35	420
976 to 1,000	34	408
1,001 to 1,025	33	396
1,026 to 1,050	32	384
1,051 to 1,075	31	372
1,076 to 1,100	30	360
1,101 to 1,125	29	348
1,126 to 1,150	28	336
1,151 to 1,175	27	324
1,176 to 1,200	26	312
1,201 to 1,225	25	300
1,226 to 1,250	24	288
1,251 to 1,275	23	276
1,276 to 1,300	22	264
1,301 to 1,325	21	252
1,326 to 1,350	20	240
1,351 to 1,375	19	228
1,376 to 1,400	18	216
1,401 to 1,425	17	204
1,426 to 1,450	16	192
1,451 to 1,475	15	180
1,476 to 1,500	14	168
1,501 to 1,525	13	156
1,526 to 1,550	12	144
1,551 to 1,575	11	132
1,576 to 1,600	10	120
1,601 to 1,625	9	108
1,626 to 1,650	8	96
1,651 to 1,675	7	84
1,676 to 1,700	6	72
1,701 to 1,725	5	60
1,726 to 1,750	4	48
1,751 to 1,775	3	36
1,776 to 1,800	2	24
1,801 to 1,850	1	12
1 851 to —	0	0

**XIX. PRESS RELEASE INSERTED AT THE REQUEST OF CONGRESSMAN
EBERHARTER, ACCOMPANIED BY INSERTION BY CHAIRMAN CARL
T. CURTIS**

[For the press and radio, for release Friday A. M., November 27, 1953]

**REPRESENTATIVE EBERHARTER (DEMOCRAT, PENNSYLVANIA) TODAY CHARGED A
LACK OF OBJECTIVITY IN THE HEARINGS BEING CONDUCTED BY THE SOCIAL
SECURITY SUBCOMMITTEE**

Representative Herman P. Eberharter (Democrat, Pennsylvania), a member of the Committee on Ways and Means which has jurisdiction over social security legislation, stated today:

"The hearings now being conducted by the Subcommittee on Social Security of the Committee on Ways and Means have been based almost entirely on questions prepared in advance after long months of preparation by the staff of the subcommittee in selecting data, statistics, and charts as a basis for the questions directed to witnesses who have also been selected.

"I have attended most of the subcommittee hearings, by invitation, and readily admit that I do not have the actuarial training and experience and so on, and even if I had, time has not permitted me to prepare questions for cross examination on the carefully chosen material which has been inserted in the record of the hearings. I have not heard any questions, particularly the prepared questions, which have been phrased so as to permit answers favorable to, or which would improve, the present social security system. On the contrary, every question has been carefully prepared and formed so as to elicit an answer which criticizes, ridicules and assails the system.

"The study or investigation, in my opinion, has been anything but objective. The printed hearings will be a monumental compendium of all possible objections and criticisms which can be voiced against the present Social Security Act, based on, in 95 percent of the cases at least, assumptions which omit other important factors, based on hypothetical situations conjured up by imagination, and in a few instances, on rare and exceptional cases.

"The study and investigation so far conducted has been in my opinion nothing but an attempt to discredit governmental social security, and to discredit and smash the present social security system. The inevitable result can only be to put fear in the minds of the millions of persons who have built up rights in the present system.

"The printed hearings will be of no value objectively, but will of course, as intended, serve as a ready reference for all those who are opposed to improving on the principles of the present social security system.

"One needs only to read the questions propounded by counsel for the subcommittee to fairly conclude the true motive of the inquiry."

(The insertion of Chairman Curtis:)

In my opinion the foregoing release is without any foundation of fact and therefore I wish to make the following statement:

A question has been raised in the press release above with respect to the methods employed by the staff in dealing with witnesses who testified before the committee in the hearings on July 24-25 and November 12-27, 1953.

In carrying out the resolution of the full Ways and Means Committee (May 21, 1953) I directed the staff to make a research study and to present in public hearings facts which would answer two questions relating to social security. These questions were:

What is it?

What is wrong with it, if anything?

During the course of these hearings a number of witnesses appeared at my request to testify with respect to various aspects of social security. Most of these witnesses, at the time, were Government employees at the Federal, State, or local level. Three were private citizens, two of whom had been closely associated with a research investigation of public assistance in a southern State. The third was formerly connected with the Social Security Administration.

Since this project was carried out by an investigative subcommittee which had no authority to hold legislative hearings where any person may present opinion testimony, it was inevitable that these witnesses would, for the most part, be verifying many facts not available in published form. With the exception of one, all witnesses were supplied beforehand with copies of the questions the chief counsel was prepared to ask. In the nature of the case, the questions in many instances contained the factual information which the staff was endeavoring to

validate. This procedure allowed the witness time to verify, correct or obtain the factual information involved.

The witness for the last day (Mr. Altmeyer) was not supplied with a copy of the questions. As a matter of fact, this would have been unnecessary since virtually all the questions related to earlier statements or writings of the witness. It should be carefully noted (see correspondence in the hearings on November 27, 1953) that I earnestly sought his cooperation by offering him a position as an expert consultant on the staff. I stated in my letter of June 9, 1953, that I was "* * * determined that this shall be a thorough, objective fact-finding investigation * * *" In his reply dated June 23, 1953, he refused to participate in any manner in this investigation. He added, "I should also like to make it clear that I shall be glad to present my views to the committee when it undertakes the question of specific proposals, and the report and recommendations of your staff"—indicating in unequivocal terms that he was unwilling to participate in any fashion in the verification of facts with respect to this program—but would appear in legislative hearings.

In the press statement above, it is stated that "* * * every question has been carefully prepared and formed so as to elicit an answer which criticizes, ridicules and assails the system * * *" The printed hearings will be a monumental compendium of all possible objections and criticisms which can be voiced against the present Social Security Act, based on, in 95 percent of the cases at least, assumptions which omit other factors, based on hypothetical situations conjured up by imagination, and in a few instances, on rare and exceptional cases." The implication is plain that *no* investigation of social security should raise questions which are critical in character.

Social security is an entirely new form of activity by the Federal Government and, for this reason, certainly should be closely scrutinized. Moreover, I should like to point out that all Government programs in the past have, and in the future should, undergo penetrating, critical study. No governmental program that is soundly conceived can possibly suffer in the slightest degree from a fact-finding investigation—no matter how critical it may be. Only in this manner can Government fulfil its responsibility to the people. Only in this manner can each governmental program be responsive to changing social and economic conditions, responsive to the needs of our people.

**XX. NATIONALITY OF SOCIAL-SECURITY BENEFICIARIES RESIDING
IN FOREIGN COUNTRIES IN DECEMBER 1953¹**

Country or continent	Total	American	Alien	Unknown
Total	24, 157	7, 985	11, 655	4, 517
Africa.....	90	63	27	9
Asia.....	1, 193	161	858	184
Australia and New Zealand.....	142	73	53	16
Canada.....	3, 580	870	1, 109	1, 601
Central America and West Indies.....	361	137	192	32
Europe	18, 101	6, 481	8, 957	2, 663
Austria.....	127	65	20	42
Belgium.....	153	82	68	3
Denmark.....	220	61	159	0
Finland.....	61	16	33	12
France.....	201	116	77	8
Germany.....	856	410	399	47
Greece.....	2, 094	427	105	1, 562
Ireland.....	840	309	189	252
Italy.....	7, 768	3, 008	4, 448	312
Luxembourg.....	9	4	5	0
Netherlands.....	114	69	44	1
Norway.....	866	238	628	0
Portugal.....	488	83	357	48
Spain.....	601	194	385	22
Sweden.....	1, 135	401	425	309
Switzerland.....	166	86	80	0
United Kingdom.....	1, 461	674	742	45
Yugoslavia.....	847	120	727	0
Miscellaneous Islands.....	94	28	66	0
Mexico	514	130	378	6
South America	167	80	81	6

¹ These data have been compiled from reports in the Foreign Service posts, Department of State. The table covers most of the beneficiaries with foreign addresses, though it does not do so on a 100-percent basis. No data are included for the Philippine Islands. Undetermined nationality is shown in the column "Unknown." In these cases the annual questionnaire confirming continuing eligibility for social-security benefits did not contain a question as to nationality.

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